



Which Is a Better Investment: Canadian Natural Resources Ltd. or Baytex Energy Corp.?

Description

Oil prices are hitting new highs for the year and many investors who have been sitting on the sidelines are starting to wonder if the energy sector has finally bottomed out.

The rebound has certainly caught many analysts off guard. In the face of warnings about dwindling storage capacity and OPEC's resolve to squeeze out American shale producers, oil prices continue to recover.

This is prompting investors to pile back into their favourite energy companies in the hope of securing some significant gains on the upswing.

Canadian Natural Resources Ltd. ([TSX:CNQ](#))([NYSE:CNQ](#)) and **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)) are two of the popular names in the sector.

Let's take a look at both companies to see if one deserves to be in your portfolio right now.

Canadian Natural Resources

If you are looking for a big company with a diversified portfolio of reserves, Canadian Natural is about as good as it gets in the Canadian oil patch.

Canadian Natural's assets include light, medium, and heavy crude oil, natural gas, natural gas liquids, and oil sands. All in, the company has about nine billion barrels of oil equivalent proved and probable reserves.

Canadian Natural has one of the strongest balance sheets in the industry and is doing a great job of managing expenses. In January the company said it would reduce 2015 capital spending by \$2.4 billion and has since reduced the number by another \$150 million. Management even took a 10% pay cut to help reduce costs.

As a result, the company should deliver positive free cash flow in 2015. While executives are taking

home a bit less pay, shareholders have been rewarded with a dividend increase. The \$0.92 per share payout is one of the safest dividends in the oil patch.

Baytex Energy

Baytex's shareholders have been on a roller coaster ride for the past 12 months. In early September the stock traded near \$48 per share and paid an annualized dividend of \$2.88. By the middle of December the dividend was down to \$1.20 per share and the shares traded at \$16.

Management has worked hard in the past five months to right the ship and investors who had the foresight to buy in December are sitting on some sweet gains.

Baytex has avoided a near-term cash crunch by cutting the payout, reducing its capital program, and renegotiating terms with its lenders. With WTI oil prices now approaching the \$60 mark, the company looks to be in decent shape and the current distribution should be safe.

Which should you buy?

The easy money has already been made in both stocks. If you want a diversified long-term bet with limited volatility, you should go with Canadian Natural Resources. Baytex probably offers better upside potential if crude prices continue to surge, but you have to be willing to risk a steep drop in the stock if oil reverses course.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CNQ (Canadian Natural Resources Limited)

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