3 Huge Potential Energy Winners Trading Under $3

Description

As crude oil flirts with the 52-week lows set during the first few months of 2015, it seems like investors everywhere are exiting the sector as quickly as they can.

On the one hand, the move makes sense. After all, it's hard to make money producing energy when the price of crude is below $50 per barrel. There's a very real possibility that if these prices continue over the next year or so, we could see a wave of bankruptcies in the sector.

But on the other hand, the market is guilty of looking at just the short term. There are plenty of reasons why this could be just a temporary move in the price of the commodity. The cure for low prices is often low prices, since producers who can't make money shut off the taps, reducing supply.

It's when the market looks the most grim that there are great buying opportunities. Right now, many of Canada's medium and small-cap energy producers are being treated by the market like they have no hope of ever earning anything again, and are even selling at steep discounts to replace the value of the assets.

For long-term investors who believe the price of energy is bound to go up again, these smaller Canadian energy producers are a golden opportunity. Here are three depressed producers under $3 that investors should keep their eye on.

Penn West

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) is perhaps the poster child of management excess. The company piled on debt during good times, and is now stuck having to sell these same assets to pay back creditors. Add on an accounting scandal about a year ago, and it's easy to see why Penn West shares are among the worst performers in the sector.

But they're also among the cheapest in the sector, at least from a price-to-book value perspective. Penn West currently has a book value of more than $10 per share, which implies huge upside compared to the current $1.77 share price.

The reason for the huge discount is Penn West's debt. The company currently owes more than $2.2 billion in long-term debt, which the market views as unsustainable with crude below $50 per barrel. But Penn West has good assets, and has had success in getting good prices for its excess land over the last year.

In short, there's a lot of potential if Penn West can work past the debt issue.

Pengrowth

Pengrowth Energy Corp. (TSX:PGF)(NYSE:PGH) is getting crushed right alongside Penn West, even though it has a better balance sheet and has some 75% of remaining 2015 oil production hedged at more than C$90 per barrel.

At less than $2 per share, it's easy to make the argument that Pengrowth is a steal at today's price. The company has new production coming online throughout the year at its Lindbergh project, and it has drastically slashed capital expenses and its dividend in order to conserve cash. Lindbergh is even profitable if crude sinks to $30 per barrel.

Like Penn West, Pengrowth's big issue is debt. It currently owes more than $2 billion in long-term debt, compared to just $2.7 billion in equity. The company does have a $1 billion credit line it can use if times get tough, but that's obviously a last resort.

Bellatrix

Perhaps the most interesting part about **Bellatrix Exploration Ltd.** (TSX:BXE)(NYSE:BXE) is the company's two largest shareholders. Legendary value investor Seth Klarmann's Baupost Group owns 11% of the company, while activist investors Orange Capital own 16.5%. Orange Capital also has two seats on Bellatrix's board.

Unlike the others, Bellatrix is primarily a natural gas producer in Alberta, which has some of the lowest-cost gas in North America. It's on pace to grow production by some 20% in 2015 as new wells come online. The company also has ample reserves that are just waiting to be developed, removing some reserve risk from the equation.

Bellatrix has a solid balance sheet, owing just $630 million compared to $1.23 billion in equity. It also has no major debt due until mid-2017, which should give it plenty of time for the price of natural gas to correct.

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