



3 Energy Stocks With Huge Potential Upside

Description

To borrow a baseball analogy, most investors are content hitting singles with their stock picks, secure in the fact that the potential downside isn't so bad. Some of the singles end up being doubles or triples, but it's rare for those types of investments to end up being home runs.

I doubt a baseball team with just singles hitters will make the World Series. A team needs a balanced attack of hitters with some power to drive home the players who are only going for singles. Without those power hitters, it's tough for the light hitters to score runs.

It's the same concept for an investor's portfolio. While core holdings should be solid companies that pay good dividends—the investing equivalent of a singles hitter—there's certainly an argument to be made for having a few investments that swing for the fences. Yes, these investments carry risk, but the upside is too great to ignore.

Probably the best place for Canadian investors to search for such opportunities is in the energy sector. There are dozens of companies in the space with huge upside potential, assuming they can ride out this latest storm.

Here are three companies that have piqued my interest in the sector.

Penn West Petroleum

It's easy to be bearish on **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). The company has a bloated balance sheet, and has been taking drastic steps in order to ensure its very survival with oil below \$50 per barrel. There was also a minor accounting scandal last year, which certainly didn't help.

All of these issues have pushed shares down to the point where they're ridiculously cheap. The company is one of the cheapest in the sector from a price-to-book-value basis, and management has been aggressive in cutting costs; it has eliminated the dividend, cut hundreds of high-paying jobs, and sold off non-core assets. These efforts have resulted in the company paying off more than \$500 million in debt over the last year.

Still, investors need the price of crude to recover for an investment in Penn West to work out. But if that happens, the company could be a huge winner. Shares currently trade at \$0.71 each on the TSX, and they traded at over \$3 each back in April when crude recovered to more than \$60 per barrel. That's home-run potential right there, assuming crude can recover before the debt load becomes a real issue.

Pengrowth

Like with Penn West, **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH) is dealing with a mountain of debt, which is pushing shares lower and lower as the market becomes convinced that bankruptcy is just around the corner.

But it isn't all dire for the company. Cash flows from its new Lindbergh project have helped to boost the bottom line, and management has been aggressively trying to cut costs. It also announced plans to tackle the debt by cutting capital expenditures and marketing some non-core assets. The company has also done a nice job hedging future production, protecting it if crude remains low. And finally, there are no major debt repayments due until 2017, giving it time to pull itself out of this funk.

Bellatrix

There's one simple reason to be bullish on **Bellatrix Exploration Ltd.** (TSX:BXE)(NYSE:BXE). There are some really smart investors who have big stakes in the company. Both Baupost Group and Orange Capital own more than 11% of the natural gas producer, betting on the long-term health of the company. Legendary value investor Seth Klarman is the head of Baupost Group.

Bellatrix has recently indicated it is focusing on its operations in the Ferrier area, one of Alberta's lowest-cost areas. This is a smart strategy in today's energy market, and there are enough reserves there to keep workers busy for years. Once prices recover, this focus should lead to some nice profits.

Management has also done a good job hedging as well. More than 50% of 2016's natural gas production is hedged at \$3.38 per Mcf. Hedging is a smart move in today's uncertain price environment.

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Author

nelsonpsmith

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