



Could These Beaten-Up Energy Stocks Double in 2016?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) and **Penn West Petroleum Ltd.**

(TSX:PWT)(NYSE:PWE) have really taken it on the chin this year, and contrarian types are wondering if the sell-off is over.

Let's take a look at the two companies to see if there is potential for a big rebound next year.

Baytex

Baytex currently trades around \$5.50 per share. That's a far cry from the \$48 per share you had to pay a little more than a year ago and gives a pretty scary picture as to how fast the meltdown has been in the oil sector.

It is also a good reminder of how much potential value lies in the company's assets if the oil market decides to rally.

Baytex is in trouble because it made a big bet on the Eagle Ford shale play at the top of the market. The \$2.8 billion deal to purchase Aurora Oil & Gas saddled the balance sheet with a mountain of debt, and the ensuing oil rout has forced the company to eliminate the dividend and essentially abandon its non-Eagle Ford assets.

Management did a good job of renegotiating covenants earlier this year and sold new shares to help reduce the debt load.

In the August update, the company said it expects to end 2015 with senior debt of about \$1.8 billion. That's still a lot to handle, but it is manageable if WTI oil can find a way to move back above \$50 next year.

It wouldn't take much to send the stock back to \$11 per share given the attractive portfolio of assets. If the market starts to sense the bottom is near for the price of oil, Baytex could easily find itself the target of a takeover.

At the current price, the minimum buyout would be about \$3 billion. At a price of \$11 per share, the takeover cost would be just north of \$4 billion. That's an easy deal for any of the larger players.

Penn West

Like Baytex, Penn West used to be a darling of the energy patch, but its slide from glory has lasted nearly 10 years. The stock recently bottomed out at \$0.60 per share, a bitter pill to swallow for investors who bought the stock for \$45 a decade ago.

Right now you can pick up a share for about the cost of small coffee at Timmys.

New investors are seeing some solid upside potential if oil can muster a rally in 2016, but the risks are huge if that doesn't happen.

Penn West's financial situation is a bit more serious than that of Baytex, although the company is doing a good job of unloading assets in a very difficult market.

Management found buyers for \$414 million in assets during the second quarter and recent sales add up to another \$398 million. If the trend continues there is a chance the company can make it, but the clock is ticking and oil prices have to improve.

Penn West finished Q3 with \$2.25 billion in long-term debt. The current market value sits at \$700 million, so the company could be sold for as little as \$3 billion right now. At double the current stock price, it would still cost less than \$4 billion to buy the whole works.

Penn West has an attractive portfolio of natural gas and light oil assets that would be a nice addition for a major player looking to boost its resource holdings.

Should you buy?

The upside potential is certainly there on an oil rebound, but both stocks are very risky bets right now and you don't want to be holding these names if WTI oil decides to plunge toward \$30 per barrel. I would look for other turnaround opportunities.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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