3 Big Risk/Big Reward Oil Stocks to Consider Today

Description

WTI oil dipped below the US$30 mark on January 12, hitting a 12-year low.

The move broke the nerve of many hold-out investors as shares of some of the sector's walking wounded swooned toward new lows. Many of the former darlings are now trading at levels that were absolutely unimaginable just 18 months ago.

Where oil goes next is anyone's guess, but investors with a contrarian style and a bit of cash on the sidelines could reap some huge rewards if oil mounts a sudden recovery.

Here are the reasons why **Encana Corporation** (TSX:ECA)(NYSE:ECA), **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) might be worth a shot.

Encana

Encana's woes are tied to its ill-timed transition from being a natural gas company to one focused on oil. The company made a couple of expensive acquisitions at the peak of the oil market, and those deals saddled the balance sheet with a nasty debt load that has been extremely punitive to the company's shareholders.

Encana's stock traded above $25 per share about 18 months ago. Now you can pick it up for about $6.50.

The company has done a good job of selling assets, raising capital, and trimming expenses, but the latest guidance, issued on December 14, assumes WTI oil will average US$50 per barrel this year. At the moment that appears to be a tad optimistic.

Here's the good news.

Encana doesn't have any major debt due before 2019, which means it still has some breathing room to ride out the slump. The company owns a very attractive portfolio of assets, with top-quality holdings in the Permian, Eagle Ford, Duvernay, and Montney plays.

Any rebound in oil will send the shares higher, and there is a chance that one of the majors could take a run at Encana.

Baytex

Like Encana, Baytex is the victim of bad timing on an oil purchase. The company paid $2.8 billion in June 2014 for assets in the Eagle Ford play. Oil prices began to fall shortly after the deal closed and management has been in survival mode for most of the past 12 months as a result.

The company is still sitting on $1.6 billion in long-term debt, but the notes are not due for a few years. At the end of Q3 2015, Baytex still had $1.05 billion in available credit lines, so there is cash available to help the company weather the storm. Having said that, Baytex has less flexibility than Encana.

The stock traded for more than $45 per share just 16 months ago. Today it is below $3, so you know what the market thinks the stock is worth if oil prices can return to reasonable levels.

Penn West

Penn West is the highest-risk pick in the group because it is the closest to going bust. It also offers the most upside potential because the market is essentially assuming the stock is headed for bankruptcy.

As with the other companies, Penn West got caught with too much debt. The company managed to unload some assets last year to bring the burden down, but Penn West simply isn’t bringing in enough cash flow in the current environment, and its access to credit is limited.

The stock traded for more than $25 per share five years ago. Now it’s worth less than a loonie.

Penn West looks like a perfect takeover target. The stock tripled in about four weeks from early October to the first part of November, so investors can see how much potential upside there could be on positive news.

This one isn’t for the faint of heart, and there is a real possibility that the stock could go to zero if oil doesn’t bounce back in 2016.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/21
Date Created
2016/01/13
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