



3 Canadian Oil Stocks That Could Double in 2016

Description

To say 2015 was a bad year for **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), and **Pengrowth Energy Corporation** (TSX:PGF)(NYSE:PGH) would be an understatement after the trio all fell by more than 50% last year. Worst yet, since the oil price decline started in the summer of 2014, all three are down more than 80%:

[BTE PWT PGF](#) Image not found or type unknown

If there is some good news to report, it's the fact that none of them sat idly by while crude prices crashed. Each worked hard to put themselves in a position to survive. Those efforts have also positioned each to rally sharply if crude prices rebound in 2016.

Getting leaner

All three companies spent the bulk of 2015 on initiatives to reduce their expenses. Penn West, for example, cut its headcount by 35%, which is expected to save the company \$45 million per year. In addition, the company cut its capex plan twice, reducing it from \$840 million to \$500 million. Likewise, Baytex Energy reduced its capex spending last year to \$500 million, which was \$75 million below the top end of its guidance range.

Meanwhile, all three companies reduced their dividends last year, with both Baytex Energy and Penn West suspending their payouts entirely. Only Pengrowth's dividend has survived, though it went from \$0.04 per share each month to just \$0.01 per share each quarter, or \$0.04 annually.

Getting cleaner

In addition to reducing their cash outflows, each worked to clean up their balance sheets. Baytex Energy was able to raise \$500 million in cash earlier in the year, which it used to reduce its debt and help fund its capex. Meanwhile, both Pengrowth and Penn West sold assets to reduce their debt. Penn West was able to raise \$810 million from asset sales last year, surpassing its goal of \$650 million. Meanwhile, Pengrowth sold \$260 million in assets, though that was below its target of \$600 million of asset sales.

By cleaning up their balance sheets, all three companies have put themselves in position to survive a longer downturn. More importantly, they have worked to reduce a key weight that has been holding down their stock prices.

One thing remains

Having said all that, there's still one thing weighing on the stock price of each company: the price of crude. For perspective on how much crude is weighing on each stock, take a look at the following chart:

[Crude canada](#)

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Note that when the price of crude was over \$50 a barrel just a few months ago, the stock price for all three companies was more than double what it is right now. This suggests that should crude rally back above \$50 a barrel, it could unleash quite a rally for all three stocks. It's possible that these companies could more than double, especially when considering all the progress each has made to improve their cash flow and balance sheet over the past year.

Investor takeaway

A big crude oil rally in 2016 could fuel a great year for Baytex, Penn West, and Pengrowth. On the other hand, it's just as possible that oil has a lot further to fall, which could mean more pain is ahead for these three companies. In other words, these are high-risk stocks that could explode higher, or just explode.

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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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Date

2025/09/21

Date Created

2016/01/15

Author

mdilallo

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