These 3 Energy Stocks Will Soar if Oil Recovers

Description

The plunge in oil prices has hurt every energy producer, but some have felt the pain a lot more than others. And generally speaking, the most damaged producers will also be the biggest beneficiaries in the event of a recovery.

Of course, these types of companies are very risky. In fact, if oil prices don't recover, then bankruptcy is the most likely outcome. But that makes their stocks even cheaper, since professional portfolio managers typically avoid such speculative companies.

These types of companies are not difficult to find; all one has to do is look at the worst-performing stocks on the TSX. And the three stocks listed below were three of the four worst performers on the TSX last year. Adding to the pain, they are down by an average of nearly 40% in 2016.

1. Pengrowth

Pengrowth Energy Corp. (TSX:PGF) was the fourth worst-performing stock on the TSX last year, losing nearly 75%. And the stock has fallen another 22% in 2016. It's no secret why Pengrowth has suffered so much. Its debt load stands at over $2 billion, equal to nearly five times the company's market value.

Granted, the company is doing everything it can to deal with the downturn. The dividend has now been eliminated. Money has been raised through asset sales. The capital program includes no new development drilling. And hedging activities have helped to protect cash flow.

Here's the problem: even if the company survives 2016, 2017 could deliver the knockout blow. The company has $538 million of debt due that year, and, of course, the hedging program will lose its effectiveness as well. On the flip side, if oil recovers and this situation is avoided, the stock price will soar.

2. Bonavista

Bonavista Energy Corp. (TSX:BNP) shares performed even worse than Pengrowth last year, losing over 75% of their value. And in 2016 the shares have sunk another 40%.

Once again, an overleveraged balance sheet is the main cause. Bonavista's debt load of $1.2 billion is more than five times the company's market value–not what you want with oil prices under US$30. Worse yet, the vast majority is due within the next five years.

As would be expected, Bonavista's dividend has been slashed, but oddly it hasn't been eliminated altogether. And that dividend now yields north of 10%. If the company wants a realistic chance of survival, the payout should probably be suspended.

3. Baytex

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) shares have fallen even further, declining by 78% last year and by about half in 2016. In fact, the stock has fallen by about 95% in less than two years. Ouch.

Once more, the balance sheet has become a big concern. Baytex's $2 billion debt load is about four times the company's market value. And as would be expected, the dividend has been eliminated altogether.

There are some bright spots. Baytex has some excellent assets in Alberta and Texas, and the company has often been cited as a takeover target. Better yet, the company has no significant debt maturities until 2021. So if oil does recover, Baytex shares will take off.

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TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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