Should You Buy Encana Corporation or Crescent Point Energy Corp. Today?

Description

Rumours of a possible OPEC deal to cut oil production are sending crude prices higher today, and investors are scrambling to cover short positions or start new bets on a possible extended rebound.

Let's take a look at **Encana Corporation** (TSX:ECA)(NYSE:ECA) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see if one is a better bet for an oil rally.

Encana

Encana's long-term investors are not happy campers.

At one time, the oil and gas producer was Canada's most valuable company. That's hard to believe right now given the brutal slide in the stock over the past several years, but it's unfortunately true.

Most of the pain in the last 18 months can be attributed to falling oil prices, but the troubles began much earlier when Encana made its first of two ill-timed strategic shifts.

In late 2009 Encana decided to spin off its oil sands and refining assets into **Cenovus Energy** and planned to focus on natural gas. Shortly afterwards the shale boom drove gas prices into the ground, and oil rallied on the back of a massive wave of global stimulus.

In 2013 a new management team reversed course. Natural gas assets were sold, and the company started to buy oil properties in the oil sector's hottest new plays. The largest deals were signed near the top of the oil boom, and the subsequent fallout has been a nightmare.

As a result, Encana has spent most of the past year scrambling to reduce debt and keep the company afloat. Five years ago the stock was worth more than $30 per share. Today it is trading at $5.

To their credit, the management team has done a good job of navigating the rout, but the latest round of capex cuts are going to hit production this year.

Output is expected to be 340,000-370,000 barrels of oil equivalent per day (boe/d) in 2016, down from the 2015 guidance of 395,000-430,000 boe/d.

Encana plans to spend US$1.5-1.7 billion this year on capital projects. In the December update, cash flow assumptions for 2016 were set at US$1-1.2 billion based on a WTI average of US$50 per barrel. Even with some hedging positions to help, the current situation suggests the numbers could be a tad optimistic.

Encana likely finished 2015 with net debt close to US$5 billion. At the time of writing the stock has a market cap of about US$3 billion.

Crescent Point

Crescent Point has also been cutting costs, but the company is still finding a way to keep production stable.

Management expects 2016 output to be 165,000-172,000 boe/d, up slightly from 2015 despite lower capital expenditures.

The company's monthly dividend is always a topic of debate. Crescent Point had to cut it from $0.23 per share to $0.10 last year, but the current payout still yields about 8.25%.

The WTI oil price has to average US$40 or better through 2016 for Crescent Point to be able to cover its capital plan plus the dividend without leaning too heavily on its credit facilities.

For the moment, investors should consider the payout as a bonus when looking at the stock.

Crescent Point finished Q3 2015 with long-term debt of $4.4 billion. The company has a market cap of $7.2 billion, so the debt situation is under control.

Which should you buy?

Encana probably offers more torque on the upside if oil really takes off, but the stock comes with a lot more risk. I would go with Crescent Point just in case the market hasn't found its bottom yet.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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