



Should You Buy Baytex Energy Corp. or Encana Corporation Today?

Description

Contrarian investors are looking at the walking wounded in the energy patch and wondering which names are poised for the biggest gains if oil continues to recover.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) and **Encana Corporation** (TSX:ECA) (NYSE:ECA) to see if one is a better pick right now.

Baytex

Baytex has delivered some big gains for the brave souls who had the guts to step into the stock at \$2 per share back in January, but the rebound back above \$6 is little consolation for long-term investors.

In June 2014, Baytex traded for \$48 per share. At the time, investors were all smiles as the company closed its game-changing \$2.8 billion acquisition of Aurora Oil & Gas. The deal gave Baytex a prime spot in the coveted Eagle Ford shale play, but it also loaded up the balance sheet with debt just as oil prices peaked.

The subsequent crash hammered the stock, and most investors figured the company was headed for bankruptcy when WTI oil fell below US\$30 per barrel at the start of 2016.

Management has done a good job of keeping the company alive. Terms have been renegotiated with lenders, the dividend is gone, and capital expenditures are down to the point where the company should be able to survive with oil at US\$40 or higher.

Net debt remains at just under \$2 billion, but none of the notes are due before 2021. The company's market capitalization is about \$1.3 billion.

Encana

Encana has also been in survival mode for the past two years for the same reasons.

The company decided to transition from natural gas to oil right before the bottom fell out of the oil

market. As a result, Encana heavily overpaid for new oil assets and piled on debt in the process.

As with Baytex, the management team at Encana has done a decent job of navigating the storm. Asset sales and cost reductions have helped bring down debt, and the company should be able to live within its cash flow at WTI oil prices of US\$40 per barrel.

Long-term debt currently sits at US\$5.4 billion and none of the notes are due before 2019.

Encana is focusing 95% of its roughly \$1 billion capital program on the company's four core assets located in the Permian, Montney, Eagle Ford, and Duvernay plays.

The company says it has the flexibility to refinance maturing debt from existing sources of liquidity.

Which should you buy?

Both stocks remain risky, and a reversal in oil prices could easily send the shares back toward the lows seen earlier this year. Investors with a bearish view on the energy market should avoid these names.

However, if you have a contrarian investing style and believe oil is headed higher, Baytex probably offers more upside torque. The company is also more likely to become the target of a takeover bid. At the moment, a buyer could theoretically pick up Baytex for as little as \$3.3 billion.

Encana could go into play, but that would require a bid of at least US\$12 billion. A deal is certainly possible, but fewer players have the firepower to pull it off.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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