



## Is Baytex Energy Corp. or Suncor Energy Inc. a Better Oil Bet?

### Description

Contrarian investors are searching for the best opportunities to benefit from a recovery in the oil patch.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)) and **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) to see if one should be in your portfolio.

#### Baytex

Two years ago Baytex was one of Canada's dividend darlings and traded for more than \$40 per share. Today, the dividend is history, and the stock can be picked up for a mere \$5.80.

That's a nasty fall, especially when you consider how fast it happened.

What's the story?

Baytex loaded up on debt to pay for a \$2.8 billion acquisition at the top of the market. As oil prices fell, revenue dried up, and Baytex had to scramble to stay alive.

Management did a good job of reducing expenses, raising capital, and renegotiating terms with lenders when they had the chance, and that has helped the company survive the rout.

The stock bottomed out below \$2 per share in January and has rebounded somewhat on the back of a recovery in oil prices and reduced concerns about a possible bankruptcy.

Some pundits say the stock is a screaming buy, but investors have to be careful.

Baytex is still carrying significant debt and has less liquidity available as a result of its renegotiations with lenders; the company finished Q2 2016 with \$1.54 billion in long-term debt and had used up nearly half of its available credit facilities as of June 30.

Net debt at the end of the quarter was \$1.94 billion. That's a lot for a company with a market cap of \$1.15 billion.

## Suncor

Suncor has held up well during the market rout, and management is taking advantage of the strong balance sheet to add strategic assets at discounted prices.

The company raised its ownership of Syncrude above 50% with the takeover of Canadian Oil Sands and subsequent purchase of **Murphy Oil's** 5% stake. Suncor also just announced a deal to acquire a 30% interest in the North Sea Rosebank project.

The oil sands operations have endured a tough year with shutdowns due to the Albertan wildfires taking a bite out of production. Fortunately, Suncor owns refining and retail businesses that have offset the difficult times in the upstream operations.

The company's integrated business model has enabled it maintain a healthy dividend. The current quarterly payout of \$0.29 per share yields 3.3%.

Suncor finished Q2 2016 with \$14.8 billion in long-term debt and \$3 billion in cash and cash equivalents. Given the \$56 billion in market capitalization, the company is on very sound footing.

## Which should you buy?

Hardcore oil bulls with a stomach for volatility tend to prefer Baytex. The troubled producer definitely offers more torque to the upside if oil rallies, but it also comes with significantly more downside risk and could easily give back its 2016 gains if oil nosedives again.

Conservative investors should probably go with Suncor today. The giant pays an attractive dividend and is capable of riding out an extended downturn in the energy sector. When oil prices recover, Suncor will also benefit, but not as much as the pure-play producers.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:SU (Suncor Energy Inc.)

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