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

Description

With WTI oil back at US$50 per barrel, investors are wondering which stocks in the energy patch are attractive picks.

Let's take a look at **Encana Corp.** (TSX:ECA)(NYSE:ECA) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see if one deserves to be in your portfolio.

Encana

Encana's long-term investors aren't happy campers.

The company was once Canada's most valuable stock, but a series of ill-timed shifts in strategy have significantly reduced Encana's value, and shareholders are crossing their fingers in the hope that the worst is finally over.

What happened?

In late 2009 Encana decided to focus primarily on natural gas and spun off its refining and oil sands business into a new company Called **Cenovus Energy**.

The decision proved to be the wrong one as oil prices subsequently rallied and natural gas tanked.

A few years later, a new management team took over and decided to reverse course. Encana sold off gas assets and bet big on oil when the market was at its highs.

As we all know, WTI oil fell from US$100 per barrel in 2014 to below US$30 earlier this year, and Encana has spent most of the past two years scrambling to sell gas assets to pay down the debt load it took on to make two large oil acquisitions.

The stock fell from $25 in June of 2014 to below $5 per share in February this year, but has since rallied back to $15 on stronger oil prices and further debt reduction.

Long-term debt was still US$5.6 billion at the end of the second quarter, but the market cap is now up to US$11.5 billion, so the balance sheet is becoming less of a concern.

The company raised US$1 billion in September through a share sale and will use half of the funds to cover development expenses in 2017. The remainder will go towards reducing the balance on the credit lines. Encana finished Q2 with US$3 billion available on its US$4.5 billion facility.

Natural gas remains an important part of the business, and natural gas prices are recovering, so this should help cash flow going forward.

Encana has identified 10,000 premium well locations across its asset portfolio.

Crescent Point

Crescent Point has also been hit by the oil rout, but the company has managed to weather the storm better than many of its peers.

The balance sheet remains in decent shape, and Crescent point is well within its lending covenants. The company had $4.1 billion in long-term debt at the end of Q2 and $1.4 billion in available liquidity.

Crescent Point kept production growing while reducing capital expenditures over the past year, but will use $600 million it recently raised through a share sale to boost spending again to take advantage of the recent gain in oil prices.

This should result in production growth of at least 5% through 2017.

The company owns some of the best assets in the sector and has at least 7,700 drilling locations identified to drive future growth.

Which is a better bet?

Both stocks will move higher if oil continues its recovery.

However, Encana has delivered some huge gains since February, so the stock could drop sharply if oil decides to reverse course in the coming months. As such, I think Crescent Point is probably the safer pick today.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/09/02
Date Created
2016/10/20
Author
aswalker