Cameco Corporation vs. Baytex Energy Corp.: Which Is a Better Contrarian Bet?

Description

Contrarian investors are always searching for unloved stocks that could be on the cusp of a big rebound.

Let's take a look at **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) to see if one is more attractive today.

Cameco

Cameco has enjoyed a nice rebound in the past month, but the stock has been in a downward trend for more than five years.

What's going on?

Uranium traded for US$70 per pound before the Fukushima nuclear disaster occurred in Japan in early 2011. Today, the spot price is stuck below US$20 per pound, and long-term prices are now down to US$33 per pound.

At those levels, global producers are having trouble breaking even, let alone generating profits, and most miners are reducing output.

Lower production should bring the market back into balance, but secondary supplies are filling demand gaps and keeping prices under pressure.

Are better days ahead?

Annual demand is expected to rise as much as 50% by 2030 as new facilities begin operation in China, India, and other developing markets. Japan is also planning to restart its fleet of reactors, although only two of the 42 operable facilities are back online.

Contrarian investors are betting the market will turn around, but Cameco is planning further production cuts next year, and the company is still caught up in a nasty tax battle with the Canada Revenue

Agency.

For the moment, I think investors should be careful chasing this stock.

Baytex

Baytex made a big acquisition just before oil started its slide, and the result has been a bloodbath for investors.

How bad?

Baytex traded for $48 per share at the end of August 2014. In January this year, it hit the $2 mark.

A rebound in oil prices helped push the share price back above $8 in June, but concerns over an oil glut brought the shares back down to $5 at the end of November. Today, the stock is trading at $6.25 after a nice surge on the back of OPEC's plan to cut oil production.

Management has done a good job of keeping the company alive through the downturn, and Baytex definitely has some upside torque on rising oil prices.

Having said that, risks remain.

The company is still carrying significant debt, which puts Baytex in a difficult situation. In order to pay down the obligations, management has to ramp up production, but oil prices have to rise enough to provide the cash flow needed to cover the required development expenditures.

Many oil companies rely on their credit lines to fund these activities. Baytex has some room to do so, but the last round of negotiations with lenders resulted in a cut to the available facilities, and it looks like management is taking a cautious approach and keeping the credit lines available to cover another dip in the oil market.

Is one an attractive bet today?

Both stocks remain risky picks.

Cameco's shares have jumped nearly 40% since the beginning of November. The only reason I can see for the surge is a move by bargain hunters to scoop up the stock after it became heavily oversold. At this point, the easy money has probably been made, so I would wait for a pullback before buying the name.

Baytex is riding the OPEC optimism wave higher. If global oil production actually comes down in the next few months, oil prices could chalk up some nice gains in 2017, and Baytex would continue to benefit as a result.

If OPEC doesn't deliver on its promises, things could get ugly.

I wouldn't buy either name today, but If you are determined to own one, I think Baytex probably offers contrarian investors a better shot at some nice returns in the next 12 months.

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CCO (Cameco Corporation)

Category

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

Date
2025/07/27
Date Created
2016/12/08
Author
aswalker