



3 Top Energy Stocks for 2017

Description

This year ended up being a pretty good year for Canada's energy sector.

It sure didn't start out that way. Crude oil sank below US\$30 per barrel back in January, as seemingly the whole world became bearish on the commodity. Some oil companies didn't survive the carnage, and many others teetered close to the edge.

Things improved significantly from there. Crude rallied, hitting US\$40 per barrel by April and US\$50 by early June. It then bounced between US\$40 and US\$50 for the latter half of the year, getting a boost lately from OPEC's agreed production cuts.

Most big Wall Street players are bullish for 2017 too. **Goldman Sachs** is predicting the price of crude will hit US\$57 by mid-year and US\$60 per barrel by the end of the year. Other analysts are even more bullish with some calling for crude to hit US\$70 per barrel by the end of 2017. A lower U.S. dollar could help make this happen.

If crude does head higher in 2017, investors will want to be prepared. Here are three oil stocks that are poised to do very well if crude does indeed rally.

Baytex Energy

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has essentially been a levered play on crude for over a year now. When the price of the commodity heads higher, so does Baytex. The opposite happens when oil falls.

Baytex has three main operating areas. Eagle Ford in Texas is a low-cost field with the average cost per barrel dropping below US\$35. Its other two fields in northern Alberta have costs that are a little higher, but they are profitable with crude at today's prices.

The big problem with Baytex is its debt. The company owed some \$1.8 billion at the end of September—a huge amount. But the good news is none of this debt is due until 2021 at the earliest, meaning management has plenty of time to wait out today's low oil prices.

The last time oil traded above \$60 per barrel, Baytex shares were \$20 each. That's huge upside potential for a company that currently trades hands under \$7 per share.

Vermilion Energy

Vermilion Energy Inc. ([TSX:VET](#))([NYSE:VET](#)) has a special place among Canada's oil producers. It's one of only a handful of companies that didn't cut its dividend during the downturn.

Vermilion has focused on low-cost production that can be ramped up without shelling out a huge amount of cash. This has enabled the company to generate cash flow even during today's tough environment while keeping its balance sheet in good shape. It owes just \$1.3 billion in debt.

Every energy company benefits if crude oil heads higher. Vermilion offers a margin of safety just in case the commodity doesn't cooperate. That's nice to have.

Husky Energy

Many of Canada's oil sands producers did pretty well during the downturn. Investors flocked to these names rather than stay in smaller producers. **Husky Energy Inc.** ([TSX:HSE](#)) was one of the big exceptions with the share price falling some 50% from 2014 highs.

Husky has been quietly improving its balance sheet, paying off some \$1.1 billion in debt. It also suspended its dividend—a move that saved it approximately a \$1 billion per year. Thanks to an aggressive cost-cutting program and reduced capital expenditures going forward, Husky could generate \$4 billion in free cash flow in 2017 if crude oil averages US\$50 per barrel. At US\$55 per barrel, free cash flow could be \$4.5 billion. That's not bad for a company with a \$17 billion market cap.

The bottom line

It looks like 2017 could be a good year for crude oil. Supply will start to leave the market in January, which could very well lead to higher prices. Costs have also gone down significantly. And many investors who swore off the sector forever could start to get bullish again.

If any of these things happen, that'll likely be great news for Baytex, Vermilion, and Husky. Investors looking to cash in on this trend should make their investments today before it's too late.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/07/03

Date Created

2016/12/23

Author

nelsonpsmith

default watermark

default watermark