Is Penn West Petroleum Ltd. or Baytex Energy Corp. a Better Oil Pick Today?

Description

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) and **Baytex Energy Corp.** (TSX:BTE
)(NYSE:BTE) have both taken a beating in recent years.

Let's have a look at the two companies to see if one might be more attractive for contrarian investors hoping to pick up a deal.

Penn West

Penn West almost disappeared last year, but a last-minute deal saved the company.

What happened?

Penn West carried too much debt heading into the oil rout and was forced to sell assets as cash flow plummeted.

Considering the difficult environment, management made good progress, but the extent of the downturn took its toll, and by May 2016, it looked like Penn West was going to be a casualty of the oil crash.

How bad was it?

Penn West was a $20 stock five years ago. By the time the stock bottomed out, the shares were trading for less than $1, and most pundits were preparing the company's eulogy.

With the clock ticking, Penn West secured a $975 million deal to sell its Saskatchewan assets. The disposition wasn't ideal, but it saved the company and immediately fixed the broken balance sheet.

Oil prices have since recovered, and Penn West is now focused on growing production at its remaining assets. The company just announced plans to nearly double its development expenditures in 2017 and expects to see year-over-year output rise by 15%.

Investors who had the guts to get in at the low are already sitting on some nice gains. At the time of writing, Penn West trades for $2.60 per share.

Baytex

Baytex had the misfortune of closing a major acquisition right at the top of the oil market in 2014.

As prices fell through the end of that year and into 2015, management cut the dividend, reduced expenditures, raised capital, and renegotiated new terms with lenders.

The quick actions probably saved Baytex from going bust, but a continued slide in oil through the early part of 2016 still took a toll on the company and its investors.

Baytex traded for $48 per share in the summer of 2014. By January 2016, it was down to $2.

Ouch!

Investors moved back into the stock as oil recovered, and the shares have bounced between $5 and $7.50 for the past six months. At the time of writing, Baytex can be bought for $6.30 per share.

None of the debt is due in the near term, but the company is still highly leveraged.

Baytex needs oil to remain at elevated levels in order to boost its development and production enough to generate the cash flow required to chip away at the debt. Output is expected to grow just 3-4% in 2017 based on the latest development plan.

Which should you buy?

Both stocks remain at the mercy of oil prices, and investors could see volatility continue amid concerns about OPEC’s ability to meet its commitments to reduce production.

So, it would be wise to keep any position small.

However, if you are looking for a contrarian pick, I think Penn West is more attractive today.

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aswalker