



3 Top Oil Stocks for 2017

Description

The deal between OPEC and key non-OPEC oil producers to curb production has been a boon for oil prices with the North American benchmark price West Texas Intermediate almost doubling from its February 2016 lows. Prices are expected to firm further now that there is evidence that OPEC and non-OPEC producers are complying with the agreed cuts in production.

According to OPEC, producers have cut supply by 1.5 million barrels daily since the agreement came into effect on January 1, 2017. This will go a long way to reducing the global supply surplus that has existed since late 2014 and depressed oil prices since then.

A lower global supply surplus will drive higher oil prices, which will act as a powerful tailwind for energy stocks over the course of 2017. Here are three oil stocks that will perform strongly as the price of crude continues to rise.

Now what?

One stock that has benefited from higher oil prices is heavily indebted **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)). Over the last year, it has shot up by 106% and will continue to rise as the price of crude firms. This, in part, can be attributed to its considerable amount of debt, which gives it considerable leverage to the price of crude.

Baytex's cash flow will grow as the price of crude rises, and the company has forecast that it will be free cash flow positive with West Texas Intermediate at US\$55 per barrel.

Impressively, Baytex reduced net debt by \$186 million over the course of 2016, despite sharply weaker oil prices, and it has also cut operating costs by 30%, helping to boost its margins.

Next is **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)), one of the very few upstream oil companies that hasn't cut its dividend since the slump in crude began. Its stock price has risen by 63% over the last year, and it remains one of the best-positioned Canadian energy stocks to benefit from higher crude.

Vermilion operates a globally diversified portfolio of oil and gas assets across North America, Australia, and Europe.

Importantly, despite the slump in crude, Vermilion has continued to grow production with 2016 oil output expected to be about 16% higher than 2015. This means it is well positioned to cash in on higher oil prices, especially considering that Vermilion has been able to significantly reduce operating expenses since the slump in crude began. It also has one of the top cash flow netbacks among its peers, which means that as oil prices continue to rise, its earnings will receive a healthy bump.

Finally, there is **Pengrowth Energy Corp.** (TSX:PGF)(NYSE:PGH), which, like Baytex, is heavily levered because of its massive pile of debt. The company has fought to survive the worst downturn in oil in decades, but with crude trading above US\$50 per barrel and heading to US\$55, it expects to be free cash flow positive in 2017.

Like its peers, Pengrowth has savagely cut costs and continues to focus on maximizing efficiencies in its operations. Management has forecast a further 9% reduction in gross operating for 2017.

Notably, Pengrowth has made significant progress in developing its Lindbergh thermal oil project. Phase one commenced operations in 2015, and Pengrowth has received regulatory approval for the next expansion stage of the project. The first phase of the project has delivered better than expected oil production, which, for 2016, was 25% higher than the 12,500-barrels-per-day forecast, boding well for further production increases as development continues.

So what?

All three stocks will perform well over the course of 2017, benefiting from higher oil prices that should continue to rise over the course of the year because of OPEC production cuts and growing global consumption.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VET (Vermilion Energy)
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