



Contrarian Investors: Crescent Point Energy Corp. vs. Baytex Energy Corp.

Description

Oil fans are looking at the recent downtrend in the sector and wondering which companies might be worthy of a contrarian buy.

Let's have a gander at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to see if one is attractive today.

Crescent Point

Crescent Point's stock is getting close to its 2016 low, but oil prices are much higher today than they were during last year's meltdown.

What's going on?

A year ago, WTI oil was about US\$40 per barrel, and Crescent Point traded at close to \$13 per share. Today, WTI is trading for more than US\$53, but Crescent Point is just \$14.50.

The disconnect doesn't make much sense based on the price difference in the oil market, but once you take a closer look at the company, the spread really becomes a head scratcher.

Why?

Crescent Point has significantly increased its spending plan for 2017 to \$1.45 billion compared to \$950 million indicated last year.

This should result in Q4 2017 exit production rates that are at least 10% higher than year-end 2016.

The company says it can cover the capital plan and its dividend if WTI oil averages US\$52 per barrel this year. If oil manages to drift higher, the business is set to generate some excess cash flow.

Crescent Point's balance sheet is in good shape, and the company has enough liquidity to ride out another downturn or make strategic acquisitions.

The current dividend provides a yield of 2.5%.

Baytex

Baytex has also been on the slide and is now testing the \$5 mark for the first time since the OPEC deal was announced at the end of November.

The company is still carrying a heavy debt load, and while none of the notes are due in the near term, the balance sheet restrictions make it difficult for the company to ramp up spending to boost output.

The upswing in oil has allowed management to increase drilling somewhat, but organic production growth is only expected to be 3-4% this year.

At current prices, Baytex is able to live within its cash flow, but the company really needs oil to move higher to give it some flexibility to start tackling the debt in a meaningful way.

Baytex owns attractive assets, and at some point, I think the company will become a takeover target. For the moment, however, it remains at the mercy of the oil market, and a move by WTI below US\$50 could hit the stock hard.

Is one an attractive bet?

Both stocks have big upside potential if oil can muster a rally through the end of 2017. At this point, however, I would be inclined to go with Crescent Point as the first pick for a contrarian play.

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