2 Oil Picks for Contrarian Investors

Description

Oil stocks are trading near 12-month lows, and investors with contrarian minds are wondering which names offer strong upside potential.

Let's take a look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) to see why they might be interesting picks today.

Crescent Point

Crescent Point trades for about $14.50 per share at the time of writing, and WTI oil is worth close to US$49 per barrel. A year ago, Crescent Point's stock sold for $19, but oil was actually closer to US$44.

So, investors were either overly optimistic last March or Crescent Point is now oversold. When we look at Crescent Point's current production outlook, the oversold case appears to be stronger.

Why?

Crescent Point has taken advantage of higher oil prices to boost its 2017 capital plan. As a result, daily production is expected to increase by 10% at the end of the year.

The company's balance sheet remains in good shape, and Crescent Point has ample liquidity to ride out another downturn or take advantage of the ongoing weakness to snap up additional resources.

The current dividend provides a yield of 2.5%. Crescent Point says it can maintain a 100% payout ratio if WTI oil averages US$52 per barrel through 2017. For the moment, that seems like a reasonable forecast.

Penn West

Penn West almost didn’t make it through 2016, but a last-minute deal to sell the company’s Saskatchewan assets for $975 million solved the debt crisis and allowed management to refocus on growth.

The company is spending an additional $180 million this year to expand output in the remaining assets. Penn West has significant hedges in place and believes the capital plan can be fully covered through operating cash flow, even if WTI oil slips as low as US$40 per barrel.

Investors should see the company exit 2017 with daily production rates that are at least 10% above the 2016 level, and management hopes to extend the trend in 2018.

Penn West finished 2016 with senior debt of $469 million compared to $1.9 billion at the end of 2015.

Is one a better bet?

Both stocks are attractive contrarian picks right now if you believe oil is headed higher in the coming months and years.

Crescent Point is much larger, pays a dividend, and has the financial strength to ride out another extended downturn. If you want the safer bet, Crescent Point is probably the way to go.

If you can handle a bit more volatility, Penn West probably offers better upside torque on a sharp rebound in oil prices, and there is a chance the company could become a takeover target.

More volatility should be expected in the oil market, so I wouldn’t back up truck, but the upside potential in these names is significant from current levels.

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