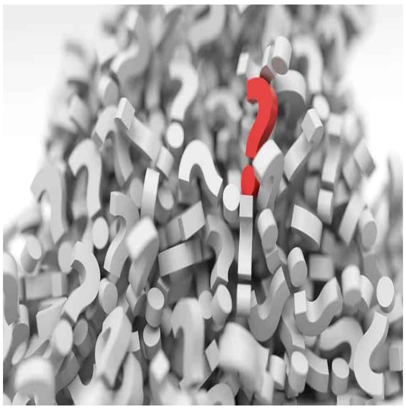

Baytex Energy Corp. vs. Cameco Corp.: Which Should You Buy?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) have suffered in recent years.

Let's take a look at the two beaten-up stocks to see if one might be an interesting contrarian play today.

Baytex

Baytex traded for $48 per share in 2014 and paid out one of the oil patch's top dividends. Today, the dividend is history, and investors have a chance to buy the stock for about $4.50.

The steep drop has been a rough ride, and investors who held on are wondering if the good times will ever return.

A run back to the previous highs is probably not in the cards, but a 100% gain from the current price is not an unreasonable target if oil can manage to extend its recovery off the 2016 lows.

Why?

Baytex is still carrying significant debt, which is why the stock tends to get hit hard every time the oil market hints at another downturn, but management has done a good job of driving down costs in the past couple of years, and Baytex still holds attractive assets.

Based on this strong resource base, Baytex has compelling upside potential if oil moves higher.

The risk of buying now is that a drop in WTI oil from the current price of US$48 per barrel down to US$40 would likely send highly leveraged producers back toward their 2016 lows. In the case of Baytex, that could mean a 50% haircut from the current price.

Cameco

Cameco's stock has been on a downward trend for most of the past decade. A brief recovery at the end of 2010 and in early 2011 had investors hoping the pain was over, but then the tsunami hit Japan, and the situation quickly changed.

Uranium traded for about US$70 per pound before the Fukushima disaster. Late last year the spot price bottomed out below US$20.

Cameco has followed the commodity lower. It was a $40 stock in 2011, and investors can pick it up today for less than $15.

Fans of the uranium producer say the long-term outlook for the industry is positive, and that is probably true. Annual demand is expected to rise by 50% through 2030, and a lack of investment in recent years could put a pinch on future supplies.

For the near term, however, there isn't much reason to buy the stock. Cameco continues to shut down production and is considering the sale of its U.S. assets.

In addition, the company is caught up in a nasty tax battle with the Canada Revenue Agency (CRA). If Cameco loses the case, it could be on the hook for more than $2 billion in taxes and penalties.

Which should you buy?

At this point, I would avoid both stocks.

The CRA situation remains a big risk for Cameco, and I think oil crash 2.0 could be on the way before we finally see an extended oil recovery.

That said, if you can handle the volatility and believe oil is headed higher, Baytex probably offers the better shot at some significant near-term gains.

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