



Oil Investors: Penn West Petroleum Ltd. or Baytex Energy Corp.?

Description

Oil prices are under pressure again, and stocks in the Canadian energy sector are getting hit.

Let's take a look at **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to see if one might be an attractive contrarian pick today.

Penn West

Penn West wants to change its name to Obsidian Energy.

Normally, a company does this when its core focus has changed, or the company wants to turn over a new leaf. In Penn West's case, the latter is true, as the current name doesn't carry much value in the eyes of investors.

Why?

Bad acquisitions, accounting scandals, and a decimated stock price have plagued the company for a decade.

Ten years ago, Penn West was a \$37 stock. In 2016 it traded below \$1 per share, and investors can currently pick it up for about \$1.80.

On the positive side, Penn West avoided bankruptcy last year by selling its Saskatchewan assets for \$975 million. The deal cleaned up the balance sheet and has allowed Penn West to focus on growing production in the remaining assets.

Management expects to exit 2017 with double-digit production growth compared to the end of 2016 with all of the required capital expenditures covered through funds from operations.

Penn West is a much smaller company these days, but it is also much healthier.

At the time of writing, the stock has a market cap of \$841 million. Long-term debt was \$384 million at the end of Q1 2017.

Baytex

Baytex has also paid the price for carrying too much debt into the oil rout and continues to feel the weight of its load.

The company finished Q1 2017 with net debt of \$1.85 billion. Baytex has a current market cap of about \$865 million, so you can see why the market is a bit nervous, even if none of the debt is due in the immediate term.

The attractive part of Baytex is the company's assets. Unlike Penn West, Baytex has managed to keep most of its resource base through the downturn. As a result, there is significant upside potential if oil prices are destined to move higher.

Baytex believes its net assets value is above \$10 per share, which is a big jump from the \$3.60 investors are paying for the stock today.

Production growth is expected to be 5-6% in 2017.

Is one a better bet?

You have to be an oil bull to own either of these stocks right now.

Investors who fall in that camp might consider a small contrarian position in Penn West if they want the comfort of a healthy balance sheet and the strong production outlook.

Those with an iron stomach for volatility might prefer Baytex. It is a riskier bet, but it also likely offers more upside torque on an oil recovery.

In addition, I think Baytex could become a takeover target given the attractive asset base.

That said, we could see WTI oil fall back to US\$40 before the market rebounds, so investors have to be careful right now.

These stocks have a contrarian appeal, but I would stay on the sidelines until a bottom is confirmed.

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