



Contrarian Investors: Should You Buy Cenovus Energy Inc. or Baytex Energy Corp.?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) are attracting some attention at current levels.

Let's take a look at the beleaguered oil producers to see if one deserves to be a contrarian pick today.

Cenovus

Cenovus made a big move in recent months with a \$17.7 billion deal to buy out its oil sands partner, **ConocoPhillips**.

Cenovus doubled the size of its oil sands production and resource base with the acquisition and says it plans to generate 14% annualized free funds flow growth through 2021 if WTI oil averages US\$55 per barrel.

At the time of writing, WTI oil trades for US\$44.50 per barrel.

Investors have responded negatively to the deal, sending the share price of Cenovus down more than 40% since the agreement was announced.

Why?

Cenovus wants to sell its legacy conventional oil properties to cover a \$3.6 billion bridge facility used for the ConocoPhillips asset purchase. The company hopes to sell assets worth \$4-5 billion by the end of the year, but the market isn't convinced that will happen.

If Cenovus can get the money it wants for the assets, the stock should rebound, as investors would be less concerned about the balance sheet.

The stock has really taken a beating since the oil rout began. In 2014 Cenovus traded for more than \$30 per share. Today the stock price is below \$10.

Baytex

Baytex traded for more than \$45 per share in the summer of 2014 and paid an annualized dividend of \$2.88.

The stock currently trades for close to \$3, and the dividend is gone.

Ouch!

Baytex has actually done a good job of reducing costs and renegotiating terms with lenders to stay alive, but it is carrying a heavy debt load, and the lower oil goes, the more concerned investors become.

Baytex finished Q1 2017 with net debt of \$1.85 billion. At the time of writing, the market capitalization is about \$800 million, so you can see why the stock is under pressure.

On the positive side, none of the debt is due in the near term, and Baytex has held on to most of its assets through the downturn.

If oil prices have bottomed, Baytex investors could see some big stock gains on an oil rebound back above US\$50 per barrel.

Is one a better bet?

Buying either stock requires a belief that oil is headed higher from the current price. If you are in that camp and can handle more volatility, a small position might be worth a shot.

For short-term gains, I think Baytex probably offers more torque to the upside. Over the long run, Cenovus presents an interesting opportunity, but you have to believe oil prices will recover and remain high for decades.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/08

Date Created

2017/06/29

Author

aswalker

default watermark

default watermark