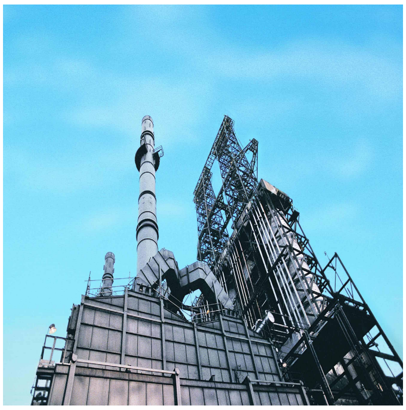

Positioning for Oil Price Strength: Baytex Energy Corp. or Crescent Point Energy Corp.?

Description

At the time of writing, crude oil is trading at just under US$50 after the commodity broke the all-important $50 mark earlier last week, as reduced supply due to production cuts and increased demand expectations are taking hold.

So, for investors wanting to position their portfolios accordingly, let's look at two of the big names in the oil and gas space and compare them.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is actually achieving operational momentum with production of 72,811 barrels of equivalent oil per day (boe/d) in the second quarter of 2017 — a 5% increase from the first quarter.

Oil at $50 per barrel means Baytex is free cash flow neutral; oil at $55 per barrel means incremental free cash flow of $75 million; and oil at $65 per barrel means incremental free cash flow of $175 million. So, the economics look very attractive with rising oil prices.

The problem with Baytex, and the reason the shares represent an elevated level of risk, is the fact that the company continues to carry an excessive level of debt, with a debt-to-capital ratio of 48% and $25 million in interest expenses every quarter.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is also achieving operational momentum, reporting better-than-expected production of 175,615 boe/d for a 1.3% increase from the first quarter. That's not great, but it is trending above the company's average production target for 2017.

But Crescent Point is much more attractive from a balance sheet perspective with a debt-to-capital ratio of 30%, and the ability to sustain a dividend yield of 3.99%. Because of this, investors have more time to just sit and wait for the commodity price to strengthen. Because, as we know, we cannot always predict these things accurately.

I mean, who predicted that oil would surpass $140 per barrel a few years ago, and then who predicted how hard and how fast it would fall shortly thereafter? And even if some of us were predicting those things, who accurately predicted the timing of it all?

All this reminds us that these predictions are challenging to make with a good degree of accuracy. So, the second-best thing, in my view, is to decide on the direction you think the oil price will go, and if you believe it will go up, then position yourself in stock of a company that is set up to benefit, but that is strong enough to withstand the wait.

Better yet, investing in a basket of stocks can give you exposure to the oil and gas sector, while giving you a degree of diversification of risk. So, maybe three or four energy stocks would be a good basket, depending on your risk tolerance.

I would include an oil-service name in there as well, such as **Mullen Group Ltd.** (TSX:MTL), with its excellent management team and diversified strategy that should ensure limited downside with good upside.

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1. NYSE:VRN (Veren)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:MTL (Mullen Group Ltd.)
4. TSX:VRN (Veren Inc.)

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Date
2025/06/30
Date Created
2017/09/19
Author
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