



Grossly Undervalued and Set to Soar: Cenovus Energy Inc. and Baytex Energy Corp.

Description

Oil prices could very likely see a sustained rally in the coming months.

Crude oil is above \$50 again after the Energy Information Administration released oil inventory numbers for the week ended September 29, which show that inventories fell almost six million barrels to 465 million barrels.

That was a far greater drop than was expected.

Bullish thesis

With OPEC cuts taking effect as well as the potential supply disruptions that could occur in politically unstable countries such as Venezuela and Nigeria, we can expect to see further pressure on the supply side.

On the demand side, we have been seeing unexpected strength in recent months, with an increase of 2.4% in the second quarter of 2017. The International Energy Agency increased its 2017 demand growth forecast to 1.7%, so we can see that the supply/demand balance is improving.

Here are two undervalued energy names to own as the commodity strengthens.

Integrated oil giant **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), is currently trading below its peer group, probably as a result of uncertainty regarding the company's succession plans, as the current CEO heads into retirement as well as to the uncertainty related to the company's asset-disposition targets, which will help ease the company's debt burden as we head into 2018.

Accordingly, progress to these two ends are the catalysts for the shares. The \$4-5 billion in proceeds from the sale of non-core assets will go a long way to deleveraging the balance sheet and reducing the risk of investing in these shares.

With 80% of its production being oil, the company has excellent exposure to a strengthening crude

price.

With oil-weighted production also standing at 80% of production, **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is also extremely well positioned to benefit from 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 expense every quarter.

However, Baytex is actually achieving operational momentum, with production of 72,811 boe/d in the second quarter of 2017 — a 5% increase from the first quarter.

Baytex has a very high sensitivity to oil prices. With oil at \$50 per barrel, Baytex is free cash flow neutral; at \$55 per barrel, that means incremental free cash flow of \$75 million; and oil at \$65 per barrel means incremental free cash flow of \$175 million. The stock will soar as the price of oil strengthens.

In summary, investing in these two undervalued energy behemoths will leave investors well positioned to benefit from rising oil prices.

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.)

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