Contrarian Investors: 3 Unloved Oil Stocks That Could Take Off

Description

Oil continues to add to its recent gains, and investors are wondering if this is the right time to put some of the beaten-up oil producers in their portfolios.

Let's take a look at three of the sector's hardest-hit names to see if they should be on your buy list.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG)

Crescent Point traded for $45 before the oil rout began. Today, investors can pick up the stock for less than $10 per share.

What happened?

Crescent Point used to be a dividend favourite in the oil patch, and many investors believed the payout would survive the downturn, as it did during the Great Recession.

Unfortunately, the pullback in oil prices went deeper and longer than expected, and Crescent Point cut its monthly distribution from $0.23 per share to $0.10 and then to $0.03, where it currently stands.

At the time of writing, the yield is 3.8%.

Income investors have pretty much bailed out, but the value crowd is starting to kick the tires. Fans of Crescent Point say the solid balance sheet, strong production growth, and attractive assets make the company an appealing play for a rebound in the oil sector.

If oil can extend its gains, the upside move in the stock could be substantial as funds flow back into the producers.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE)

Cenovus spent $17.7 billion earlier this year to buy out its oil sands partner **ConocoPhillips**.

On the surface, the deal should be positive, as it doubles both production and the resource base on assets that Cenovus already operates. In addition, Cenovus picked up properties in the growing Deep Basin plays in Alberta and British Columbia.

The market didn't like the deal, however, and the stock has taken a significant hit.

Why?

Cenovus took a large bridge loan to cover the purchase while it tries to sell some non-core assets. Two deals for a total of close to $1.5 billion have already been announced, but it is still unclear if Cenovus will get the $4-5 billion it seeks for all the assets it hopes to sell.

The stock trades at close to $12 per share. In 2014, investors paid more than $30.

If Cenovus finds buyers for the remaining non-core assets at attractive prices, the stock could take off.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE)

Baytex is one of the hardest-hit stocks in the oil patch. The shares fell from $48 at the 2014 peak to about $2 in the dark days of early 2016.

Long-term holders of the stock might not be feeling all that excited about the move back to the current price of $3.50, but new investors could be looking at some impressive upside.

Baytex is carrying significant debt, which is why the stock is so volatile. However, management has done a good job of keeping the company alive through the downturn, and Baytex has retained most of its assets.

The company calculates its net assets value to be at least $9 per share, so the gains from the current price could be significant if oil continues to move higher.

The bottom line

All three stocks remain at the mercy of oil prices, so you have to be an oil bull to own them.

However, if you think oil's recovery has legs, it might be worthwhile to take a small contrarian position. A sharp jump in WTI oil prices toward US$60 per barrel could send these stocks soaring.

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