Cenovus Energy Inc. vs. Baytex Energy Corp.: Which 1 Is a Better Buy?

Description

None can predict where oil prices will be tomorrow. But if you have been following the price trend during the past five months, you will notice that crude oil has found strong support around $50 a barrel.

This is not too exciting a level given where the commodity was trading in 2014, but it gives energy-loving investors a good starting point to look for bargains.

Keeping this theme in mind, I have picked two oil producers, **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), to determine which one has a better upside potential if oil prices surge from here. Let's have a look.

Cenovus Energy

Cenovus operates vast reserves of Canadian oil sands in northern Alberta and a large land base with significant production in the Deep Basin — a liquids-rich natural gas fairway in Alberta and British Columbia. The company also has 50% ownership in two U.S. refineries.

In addition, Cenovus has legacy conventional oil and natural gas assets in Alberta and Saskatchewan it is currently putting up for sale.

After plunging 75 % during the 2014 oil rout, Cenovus shares have come back strongly during the past three months, rising 30% to $12.20.

Besides weakness in energy prices, another big factor that kept Cenovus shares under pressure was the company's decision to buy oil sands assets of **ConocoPhillips.**

Investors didn't like this $17.7 billion deal, which almost doubled production from assets that Cenovus was already operating as a joint partner with ConocoPhillips. Investors were concerned that it would add significant debt to the company's balance sheet and dilute the existing shareholders.

Baytex Energy

Baytex owns and operates crude oil and natural gas assets in the Western Canadian Sedimentary Basin and in the Eagle Ford in the U.S. About 79% of Baytex's production comes from crude oil and natural gas liquids.

Trading at $3.39 a share at the time of writing, investors in Baytex stock have seen a major erosion of their capital, as its shares tumbled from ~$49 before oil prices crashed in 2014. You might be wondering why this stock suffered badly when compared to Cenovus.

The reason is that the company acquired large assets at the top of the commodity cycle, loading its balance sheet with the massive debt. As prices began to slide in 2014, Baytex struggled to maintain a balance between investing capital to grow its output and to pay down its debt.

Going forward, the company's main focus is to arrest production declines through a higher spending program in both U.S. and Canada and manage its elevated debt loads.

According to the company projections, it can increase its output if oil prices remain above $50 a barrel for a sustained period. But its high debt-to-capital ratio of 48% is a major hurdle in improving its output in a meaningful way.

Which one is better?

I think Cenovus is in a better position to take off if oil prices continue their upward journey. In the second quarter, for example, its ConocoPhillips assets helped boost total production by 65% to 436,929 barrels of oil equivalent per day, showing how quickly the company was able to generate cash from these fields.

Cenovus is moving closer to generating $5 billion in proceeds from the sale of its assets to cut its debt load, which it amassed after the ConocoPhillips assets purchase.

In the most recent sale, Cenovus was able to raise $512 million from Suffield asset sale to the **International Petroleum Corp**. That deal added to $1.5 billion raised so far from the company's asset-sale program.

Trading at price-to-earnings multiple of five, Cenovus stock looks quite attractive if you are looking to add an energy stock with a long-term growth potential.

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