Baytex Energy Corp. and Cenovus Energy Inc. Shares to Skyrocket as Oil Trades Higher

Description

The price of oil closed just shy of $54 per barrel on Friday — back to levels last seen more than two years ago, amid reports that the OPEC production cuts will be extended beyond the current March 2018 timeline.

With OPEC showing discipline and motivation to maintain production cuts, a continued high level of geopolitical risk in the world, and stronger than expected demand, it is increasingly clear that the bullish case for oil is playing out nicely, and that investors should position themselves accordingly.

Let's look at two of what I think are the best names in the oil and gas space, as they offer quality assets and production as well as an attractive valuation.

Integrated oil giant **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) has a very large portfolio of oil sand assets and refining capacity with good growth ahead of it.

The shares are 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 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.

The company reported a very strong second quarter, with operating earnings of $398 million, significantly higher than last year's loss of 39 million, as the western Canadian assets that were recently acquired from **ConocoPhillips** contributed greatly.

And these very strong numbers came as the price of oil averaged below $50 per barrel.

The third-quarter report will come out on November 2.

With oil-weighted production 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 expenses 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.

And with very high sensitivity to oil prices, Baytex is free cash flow neutral with oil at $50 per barrel. 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 with the price of oil strengthening.

Baytex also reports third-quarter results on November 2.

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