Here’s Why Energy Shares, Including Baytex Energy Corp., Are Going Nuts

Description

As oil approaches $55 in trading, it is clear that optimism in the energy sector is gaining momentum.

Improved OPEC compliance, a report by the Energy Information Administration (EIA), which indicated that crude inventories fell by 2.4 million barrels last week, and the risky geopolitical environment have all worked together to boost oil prices again.

In fact, Western Texas Intermediate (WTI) prices have risen from lows of below $30 in January 2016 to current levels of just shy of $55.

Analysts are increasing their oil price forecasts, and we can expect estimates for energy companies to rise. And with this, stock prices will also rise.

So, in this scenario, here are the stocks to own:

With oil-weighted production standing at 80% of production, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) is extremely well positioned to benefit from rising oil prices.

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 very high sensitivity to oil prices. With oil at $50 per barrel, 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. The stock will soar with the price of oil strengthening.

Baytex reports third-quarter results today.

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

Two issues that have plagued the company have been succession plans and its heavy debt load.

The issue of succession planning has recently been addressed, providing visibility and assurance to investors. The company recently announced the appointment of Alex Pourbaix as president and CEO. He comes from **TransCanada Corporation**, having spent 27 years there is a variety of leadership roles.

The heavy debt load is still being worked on, as Cenovus plans to use asset dispositions to reduce debt, but the increasing oil price will also serve that purpose, while we wait for the dispositions.

Lastly, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) is special, because it offers a long-life, low-decline portfolio and oil and gas assets that have given the company a predictable and reliable stream of cash flow with little reserve-replacement risk.

This means investors get exposure to the sector’s upside, while mitigating the downside risk.

With oil representing more than 70% of total production, a ramp-up in free cash flow this year, a healthy dividend yield, and an increasing dividend, CNQ is a must-own for energy exposure.

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