2 Dirt-Cheap Stocks to Buy as Oil Prices Surge

Description

No one can predict where oil prices will go tomorrow. Forecasting commodity prices is a risky business. This is what I have learned after going through the economic research of some top investment houses.

But if you are an investor looking for bargains in the energy space, then this is probably a good time to make your move. You can find some very attractive valuations after almost five years of a downturn in oil prices.

Now that oil prices are firming up between $50 and $55 a barrel, some energy stocks have become attractive for long-term oil bulls. Here are my top picks from the Canadian oil patch.

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

Since Cenovus announced Canada's second-largest oil sands deal, the share price of this once very conservative producer has been on a slippery slope.

Cenovus stock dropped to ~$9 this summer from $22 after the company announced it would pay **ConocoPhillips** $17.7 billion for its oil sands and Alberta Deep Basin natural gas assets.

Investors were not happy with this highly leveraged transaction, which loaded the company's balance sheet with a lot of debt, and pushed the company in uncharted territory.

To arrange the funding, Cenovus issued $3 billion of stock at $16 a share, got a $3.6 billion bridge loan, and targeted up to $5 billion of proceeds in future asset sales.

After three quarters of uncertainty, the latest developments suggest that Cenovus is moving in the right direction. On October 19, Cenovus announced that it agreed to sell its Palliser crude field to **Schlumberger Ltd.** and **Torxen Energy** for a deal valued at $1.3 billion. With the Palliser sale, Cenovus has announced about $2.8 billion in divestitures to help pay off that bridge loan.

Reacting to these positive developments, Cenovus's stock price has jumped ~20% in the past three months. Trading at $12.52, and with a trailing P/E ratio of just 5.3, Cenovus stock looks a bargain, especially when its asset sale plan is accelerating and oil prices are stabilizing.

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

Baytex is among the hard-hit energy producers, which bore the brunt of the collapse in oil prices from more than US$100 a barrel in mid-2014 to about $30 in early 2016.

Baytex stock was trading at $3.55 at the time of writing, tumbling from $48 when oil was at its peak, forcing the company to suspend its dividend program and preserve cash.

But as oil prices recover, the share price of this Calgary-based oil producer is showing some strength, surging 16% in the past five days.

Improvement in oil's outlook is not the only favourable development for Baytex stock. During the latest downturn, the company strengthened its balance sheet, renegotiated some debt, and preserved its assets, which are now ready to generate cash as oil recovers.

The company generated $164.5 million funds from operations in the first half of 2017 compared to $126.9 million in the first half of 2016, suggesting these measures are improving the company's liquidity position.

Baytex is another cheap oil stock to consider if you are an oil bull and looking for capital gains in this space.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/07/06
Date Created
2017/11/04
Author
hanwar