Value Investors: 2 Beaten-Up Oil Stocks to Consider Right Now

Description

The recent surge in oil prices has investors wondering which oil producers might offer a shot at some big gains.

Let's take a look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see why they might be interesting picks.

Baytex

Baytex was a $48 stock when oil began its decline in the summer of 2014. Today, investors can pick it up for about $4.30, and that's after a 40% surge in the past two weeks.

What happened?

Baytex made a large acquisition right at the top of the oil market. As prices fell, margins began to shrink, and Baytex quickly found itself facing a cash flow problem.

Management made some smart decisions early in the downturn that probably saved the company. Baytex slashed the dividend and renegotiated terms with lenders. The company also took advantage of a brief recovery in oil prices in 2015 to issue new shares and raise much-needed capital.

The debt situation is still an issue, but Baytex has held on to most of its assets, and that is where contrarian investors see big potential. In fact, Baytex has calculated its net asset value to be above $9 per share at oil prices that are lower than the current level.

If oil can extend its recent rally, Baytex should be able to boost production and cash flow enough to begin paying down the debt in a more meaningful way.

As the balance sheet improves, investors could continue to move back into the stock.

Crescent Point

Crescent Point has also taken a beating during the oil downturn. The stock traded for more than $45 per share at the peak and is currently available for about $11.

The company owns great assets, and while debt is high, the balance sheet remains in decent shape. Crescent Point is selling non-core assets to pay down its obligations, and the company is well within its lending covenants.

Year-end exit production growth is targeted at 10% on a per-share basis for 2017. The recent improvements in the oil market could provide support for an increase in the capital plan, which would boost output even more in 2018.

Crescent Point was once a dividend darling in the energy patch, but the extended rout forced the company to slash the monthly payout from $0.23 per share to $0.10 and then again to the current distribution of $0.03.

That's still good for a 3% yield.

Crescent Point's share price is up more than 20% in the past two weeks.

Is one more attractive?

Both stocks should continue to rise as oil prices drift higher.

Baytex probably offers more upside torque, but the downside risk is also greater if oil decides to give back a good chunk of the recent gains.

If you can stomach the volatility, Baytex might be the way to go for a contrarian bet. Otherwise, Crescent Point still appears oversold and currently offers a nice dividend yield.

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