Contrarian Investors: Could These 2 Oil Stocks Soar in 2018?

Description

Contrarian investors are always searching for beaten-up stocks that could be on the verge of a rebound, and the energy sector is one place people are searching for deals.

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

Crescent Point

Crescent Point used to be one of the oil patch's dividend darlings with a monthly payout of $0.23 per share. The extended oil rout forced management to cut the distribution to $0.10 and then again to $0.03 per share, where it stands today.

Income investors have pretty much moved on to other names, but some value seekers are taking a hard look at the company.

Why?

Crescent Point reported Q3 2017 production that was 10% above the same period last year and bumped up its full-year average daily output guidance. Considering the challenging oil environment, the results are encouraging.

Debt, however, still has some investors wondering if the stock carries too much risk. Crescent Point finished Q3 with net debt of $4.1 billion, which is a lot for a company with a current market capitalization of $4.7 billion, but the firm is within its lending covenants and maintains a strong liquidity position with $1.5 billion in available funds as of September 30.

Management is selling some non-core assets to reduce the debt load and shore up the balance sheet, and that trend is expected to continue next year.

Cash flow risk is also being managed through hedges. About 25% of first-half 2018 oil production is hedged at $70 per barrel.

At the time of writing, the stock trades for about $8.60 per share. That's a far cry from the $45 investors were paying in 2014, so the upside potential is certainly attractive if oil can muster a sustained recovery.

The current dividend provides a yield of 4%.

Baytex

Baytex trades for less than $4 per share. That's down from $48 in June 2014 when the company closed a major acquisition in the Eagle Ford shale play.

The deal was supposed to be a game changer for Baytex, and it was, but not in the way investors hoped. Oil prices began their descent shortly after the purchase, and by December of that year, Baytex was in crisis mode.

Management has done a good job of keeping the company alive through the downturn. Baytex slashed the dividend and negotiated new terms with lenders early on, and it raised important capital through a stock offering when oil briefly rebounded in 2015.

Debt remains high, but Baytex has managed to hold on to most of its assets, and that's where value investors see an opportunity.

In fact, the company has calculated its net asset value to be above $9 per share based on oil prices that are below current levels. If you think the company's numbers are correct, there is a shot at some nice gains from the current level.

Is one more attractive?

Both stocks should see strong gains if oil prices move higher next year. Baytex tends to be more volatile and probably carries more risk, but it also likely offers more upside torque on surge in the crude oil market.

Crescent Point certainly isn't risk-free, but new investors can pick up a 4% yield while they wait for better days.

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