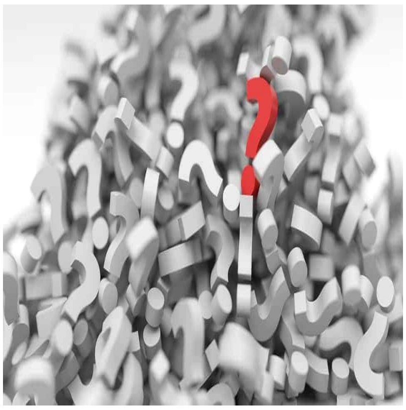

Should You Buy Cameco Corp. or Baytex Energy Corp. in 2018?

Description

Contrarian investors are always searching for beaten-up stocks that could be on the verge of a recovery.

Let's take a look at **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) to see if one if them deserves to be in your portfolio.

Cameco

Cameco was a $40 stock before the tsunami hit Japan and caused the Fukushima nuclear disaster. Today, more than six years later, Cameco trades for $12 and long-term investors are wondering when the recovery will begin.

Spot prices for uranium went into a downward spiral after the Fukushima accident, falling from US$70 per pound to below US$20 last year. The market has recovered a bit in recent weeks, topping US$25 per pound, but the industry needs much stronger prices to survive.

Slow progress in the Japanese restarts is part of the problem, but secondary supplies are also keeping prices down, offsetting efforts by Cameco and its peers to cut production.

At some point, the market will rebalance, but more pain could be on the way before investors see a recovery. Cameco reported rough Q3 2017 numbers and subsequently slashed the dividend and announced further mine shutdowns, as it sees no improvements arriving in the market in the near term.

In addition, Cameco is caught up in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than $2 billion in penalties and taxes.

Baytex

Baytex closed a major acquisition just before oil prices started their multi-year slide. As crude plummeted and margins dried up, Baytex faced a cash crunch, and the stock dropped from $48 to $15 per share in less than six months.

Management did a good job of keeping the company alive through the worst part of the downturn. Baytex cut the dividend early and negotiated new terms with lenders while there was a window of opportunity.

The company also raised much-needed capital when oil prices briefly recovered in 2015.

Nonetheless, the stock continued to fall and bottomed out early last year around $2 per share.

Baytex has been great for traders since then, rising and falling in big moves on every change of emotion in the oil sector, but investors are still feeling the pain.

At the time of writing, Baytex sold for about $3.50 per share.

Fans of the stock say the company is undervalued, which may be true, as Baytex has estimated its net asset value to be above $9 per share at oil prices that are lower than the current level.

Is one a good bet for 2018?

Both stocks continue to carry risk, so investors should keep any position small.

That said, Baytex probably offers the best shot at some nice gains next year if oil can extend its recovery. Given the attractive assets and the low valuation, the company may also be bought, although I wouldn't buy Baytex on the hopes of reaping a takeover windfall.

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