These Dirt-Cheap Oil Stocks Could Surprise You in 2018

Description

As we wrap up 2017, the Canadian oil patch is offering some attractive bargains for investors who have the stomachs to take higher risks and bet on the companies that are in the middle of their turnarounds.

No one can predict which direction the energy markets will move next year, but the good news for oil bulls is that oil prices have firmed up with good support around $55-60.

This range is very supportive for Canadian oil sands producers that are either ramping up their productions or looking for good value for assets they plan to sell. Here are two dirt-cheap oil stocks that could deliver huge capital gains in 2018.

Cenovus Energy

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is an interesting oil sands player that could provide great value to contrarian investors if its turnaround plan works out the way the current management is forecasting.

The biggest indicator of the company's success will be a meaningful reduction in its indebtedness. The Calgary-based producer has been burdened with $12 billion long-term debt after it concluded a $17.7 billion deal to buy **ConocoPhillips's** oil sands and Alberta Deep Basin natural gas assets.

To arrange the funding for this deal, 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.

Cenovus is targeting to reduce its debt to a level that is twice its earnings by 2019. That goal is attainable if the Cenovus is able to sell its assets while taking advantage of the strengthening oil prices.

"Our priorities for 2018 are to reduce costs and deleverage our balance sheet while maintaining capital discipline," Cenovus's new president and CEO Alex Pourbaix said in a statement this month.

Trading at $11.17, Cenovus stock is down 45% in 2017. Its future direction will be highly sensitive to the company's asset sales. The indications are that the company is on a right track after it concluded two deals in October valued at $1.3 billion.

Baytex Energy

For **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), it was all about survival, since oil prices tumbled from more than US$100 a barrel in mid-2014 to about $30 in early 2016.

The downturn in oil prices was devastating for Baytex, which bought assets at the peak and found itself catching a falling knife. This bad luck forced the company to cut its dividend, renegotiate its debt, and slash its development plan.

But it seems the company is winning the battle of survival and benefiting from the improving oil prices. In its capital-spending plan for 2018, Baytex is targeting to increase its output by 6%, while avoiding taking on more debt.

“Our 2018 budget builds on the operational momentum established in 2017 which has positioned our business for success in today's crude oil price environment,” Baytex's CEO Ed LaFehr said in a statement. “Focusing on our three high return resource plays, we will continue to grow our production and cash flow, with a modestly increased activity set.”

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.

At $3.5 a share, Baytex is down 46% in 2017. With analysts' 12-month consensus price target of $4.48 a share, there is a potential for a huge upside if the company shows its turnaround plan is working.

The bottom line

Cenovus and Baytex could produce high returns for their investors next year, but this is a high-risk bet which might very well backfire. These two picks suit high-risk takers who are comfortable with the highly volatile nature of this trade.

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