



## Oil and Gas Prices Continue Rising: 2 Top Energy Stocks With Massive Upside

### Description

As of close January 23, WTI oil is now trading just shy of \$64.50, and natural gas is trading at just over \$3 for one-month returns of 10% and 15.5%, respectively.

With this kind of price action and the accompanying strengthening of fundamentals, investors would be well advised to beef up their positions in this sector.

So, what are the best stocks to own?

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has performed well over the last month, having rallied 21%. But the stock is still trading lower compared to one year ago, despite the price of oil having rallied approximately 20% since then.

And while Baytex may have had a good reason for this lacklustre performance, a [higher oil price](#) solves many of its issues.

Baytex, as we know, has been hit by the fact that the company was and is still carrying too much debt. But, while at sub-\$30 oil this is a huge problem, one that puts the company as a going concern at risk, at \$60 oil, the story is totally different.

Baytex has big leverage to the oil price, and accordingly, the stock has big upside. It has been slowly reducing its debt and has taken it down from \$2.1 billion to the current \$1.7 billion.

The company's asset disposition plan, which is expected to bring in much-needed proceeds from the sale of non-core assets, will go a long way to deleverage the balance sheet and reduce the risk of investing in these shares.

The company has been performing better operationally, with management producing in the upper end of its guidance and reducing its 2017 operating cost guidance by 10%.

As a reminder, at \$50 per barrel, Baytex is free cash flow neutral; at \$55 per barrel, Baytex generates incremental free cash flow of \$75 million; and oil at \$65 per barrel means incremental free cash flow of

\$175 million.

**Peyto Exploration and Development Corp.** ([TSX:PEY](#)) is a quality company to invest in to take advantage of [strengthening natural gas prices](#).

As a \$2.3 billion market capitalization oil and gas company with over 90% of its production from natural gas, most of it coming from the Deep Basin of Alberta, Peyto has been generating solid results even with lower natural gas prices.

Third-quarter results showed a 93% increase in EPS, a 9% increase in funds from operations per share, and free cash flow of \$25 million in the first nine months of the year.

With Peyto, we get the lowest-cost intermediate natural gas producer and a 5.6% dividend yield.

In summary, the energy markets have been fast moving — on the way down but also on the way back up.

Market expectations and stock prices have not kept pace with the recovery, and investors therefore have a big opportunity to buy the stocks mentioned in this article at attractive prices.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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