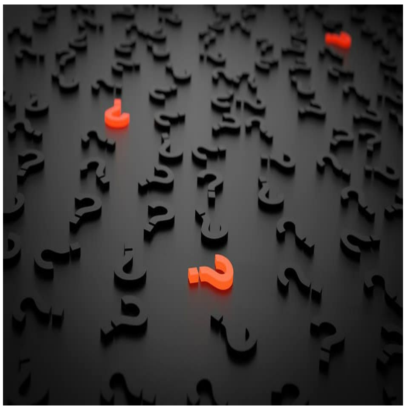

Is Enbridge Inc. or Baytex Energy Corp. Better for Your RRSP?

Description

Canadian investors are filtering through the market's unloved stocks and wondering which ones might be attractive contrarian picks for their RRSP portfolios.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) to see if one deserves to be on your buy list.

Enbridge

Enbridge bought Spectra Energy last year for $37 billion in a deal that created North America's largest energy infrastructure business.

Spectra added important gas assets to complement Enbridge's heavy focus on liquids pipelines and brought a solid portfolio of capital projects.

Enbridge is working its way through $22 billion in near-term developments that should be completed through 2020. As a result, management sees cash flow improving enough to support annual dividend increases of at least 10% over that time frame.

Enbridge traded for $55 a year ago. Today, investors can buy the stock for $43 per share. At that price, you can pick up a solid 6.2% yield.

Baytex

Long-term Baytex shareholders are wondering if the stock will ever return to the glory days.

How bad has it been?

In the summer of 2014, Baytex traded for $48 per share and paid one of the energy sector's best dividends. At the time of writing, Baytex can be picked up for less than $3.50, and the dividend no longer exists.

Despite the ongoing weakness in the stock, management has actually done a good job of keeping the company alive through the downturn. Baytex cut costs early and renegotiated terms with lenders at an opportune time. The company also took advantage of a brief rally in oil in 2015 to raise capital.

As a result, Baytex avoided a fire sale of its core assets, so there is some nice potential upside if oil rallies enough to boost the capital plan and provide a way to get the debt paid off.

In fact, the company has estimated its net asset value to be above $9 per share at oil prices that are quite a bit lower than current levels. If you believe the numbers, the stock looks cheap.

Net debt at the end of Q3 2017 was $1.75 billion, which is a lot for a company that currently has a market capitalization of $780 million. The balance sheet concern is one reason the stock remains volatile.

Is one a better RRSP bet?

RRSP holdings tend to be for decades, so I would go with Enbridge as the first choice. The dividend-growth outlook is attractive, and the stock has pulled back to the point where it looks cheap.

Baytex likely offers more torque to the upside on an oil surge, but the overall risks probably outweigh the potential gains when considering the stock for an RRSP.

It might be better suited for a TFSA portfolio.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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aswalker