Cenovus Energy Inc. vs. Baytex Energy Corp.: Which Oil Stock Is up for a Rebound?

Description

At a time when oil prices are stabilizing above $60 a barrel, some contrarian investors are wondering which risky oil stocks offer a better value to take advantage of the strength in energy markets.

Let's see if investors should bet on **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) or **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) — two companies that are working to turnaround their businesses.

Cenovus Energy

Cenovus is one my favourite among the cheap oil stocks due to the company's huge upside potential if it succeeds in its efforts to cut its debt load through asset sales and cost containment.

The biggest setback for this oil sands producer came from its flawed acquisition strategy when it bought **ConocoPhillips's** assets for $17.7 billion. This massive undertaking not only ballooned its leverage, but also destroyed the company's investment appeal.

As the oil markets recover and investors return to M&A deals, there are signs that Cenovus could be close to getting out of this debt quagmire. In the past 12 months, Cenovus was able to fetch $4 billion from the sales of heavy and light oil properties in four separate transactions.

That cash infusion brought the company's net debt down from $13 billion to $8.9 billion, helping to ease some of the concerns investors have about the company's future.

After its fourth-quarter earnings report this month, Cenovus's new president and CEO Alex Pourbaix told investors that the company will sell more of its assets from Alberta's Deep Basin natural gas formation, which it bought from ConocoPhillips Canada as a part of the $17.7 billion deal.

Cenovus's share price, however, has remained depressed amid this uncertainty, as investors wait on the sidelines. Trading at $9.41, Cenovus shares have lost about quarter of their value this year.

Baytex Energy

Baytex Energy is another turnaround bet in the energy space that contrarian investors might consider. The 2014 downturn in oil prices was devastating for Baytex, which bought some energy assets at the peak of the oil boom; the company took on huge debt on its balance sheet. This bad luck forced the company to cut its dividend, renegotiate its debt, and slash its development plan.

But improving oil markets are helping the company get back on its feet. In its capital-spending plan for 2018, Baytex is targeting to increase its output by 6%, while avoiding taking on more debt.

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 18% this year, further adding to its 34% decline in the past one year. With analysts' 12-month consensus price target of $4.38 a share, there is a potential for a huge upside if the company shows that its turnaround plan is working.

The bottom line

Both Cenovus and Baytex are cheap oil stocks that are suitable for high-risk takers who have an investment horizon of at least five-years. Among the two, I like Cenovus stock better than Baytex, as I see a potential payback time sooner, assuming the company is successful in offloading more of its assets.

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