



Is Baytex Energy Corp. or Inter Pipeline Ltd. a Better Contrarian Pick Today?

Description

Contrarian investors are always searching for [troubled stocks](#) that might be on the cusp of a recovery.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) and **Inter Pipeline Ltd.** (TSX:IPL) to see if one might be attractive today.

Baytex

Baytex continues to see volatility, which could continue for some time.

Why?

The company finished Q3 2017 with net debt of about \$1.75 billion, which is a lot for a business with a market capitalization of less than \$800 million.

Until Baytex can make a material dent in the debt obligations, investors are going to grow increasingly nervous every time oil prices dip.

On the bull side, contrarian investors are looking at Baytex' asset base and wondering whether the stock is simply too cheap to ignore. The company has calculated its net asset value to be above \$9 per share at oil prices that are below current levels, so there is an opportunity to realize some nice gains if oil prices continue their recovery.

In the meantime, management continues to focus on reducing costs and is boosting production where the numbers make sense.

IPL

IPL owns natural gas liquids (NGL) extraction assets, oil sands pipelines, conventional oil pipelines, and a liquids storage business in Europe.

The company took advantage of the [oil rout](#) to acquire new assets at attractive prices, including the \$1.35 billion purchase of two NGL extraction facilities and related infrastructure from **The Williams Companies**

. The deal was made at a significant discount to the cost of building the assets, so IPL could thus see strong returns from the investment.

Management just gave the green light to a development project that should also boost revenue and cash flow in the coming years. The \$3.5 billion Heartland Petrochemical Complex is expected to begin operation by the end of 2021, and should provide annual EBITDA of \$450-500 million.

The stock is down from nearly \$28 in early December to about \$22.50 at the time of writing. That puts the current dividend yield at 7.5%.

The company raised the distribution in the fall, and the 2017 payout ratio was 62%, so based on the cash flow generated from the existing assets, the payout should be safe.

Is one more attractive?

Both stocks could deliver big gains on improved market conditions. At this point, Baytex is probably a riskier bet, and the lack of a dividend means you aren't paid anything while you wait.

IPL might not have the same upside potential as Baytex, but the distribution should be reliable, and the sell-off in the broader energy infrastructure sector might be overdone.

As such, I would probably make IPL the first pick today.

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