Contrarian Investors: 2 Oil Producers to Stick in Your TFSA

Description

Oil stocks remain out of favour, and investors with an eye for opportunity are starting to kick the tires on some of the popular names in the sector.

Let's take a look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see why they might be interesting picks.

Baytex

Baytex was a $48 dollar stock with a rock-star dividend back in the summer of 2014. At that time, oil traded for US$100 per barrel, and the company felt pretty good about its recent completion of a large acquisition.

Unfortunately, the deal closed right at the peak of the market, and the steep drop in oil prices hit the company hard in the following months and subsequent years.

Today, the dividend is gone, and investors can buy Baytex for $3.50 per share.

Long-term investors are certainly frustrated, but value hunters with a stomach for volatility might want to consider a small position in the stock today.

Why?

Oil has recovered some of its losses and appears to be stabilizing above US$60 per barrel. Baytex managed to hold on to most of its assets, and the company has stated it believes it has a net asset value of more than $9 per share at an oil price that is below the current level.

If the calculation is reasonable, Baytex has some significant upside potential.

Suncor

Suncor is primarily known for its oil sands operations, but the company also owns large refineries and more than 1,500 Petro-Canada service stations. The integrated structure is a big reason the stock held up so well during the rout. Tough times in the oil market can actually be good news for the downstream businesses.

Suncor took advantage of the downturn to add strategic assets at attractive prices, including the acquisition of Canadian Oil Sands, which gave Suncor a majority interest in Syncrude.

The company also pushed ahead with large organic projects, and two of those recently switched from development to production.

Lower capital expenditures and higher production are in the cards for 2018 and beyond. Suncor just raised its dividend by 12.5%, so management must be feeling pretty good about the company's prospects. At the time of writing, the stock provides a yield of 3.4%.

Pipeline capacity remains a big question mark for the Canadian oil sands operators, but Suncor is still getting its product to market.

The bottom line

If you are an oil bull, it might be worthwhile to split a new investment between these two stocks. Baytex is higher risk but likely offers more upside torque as oil prices move higher. Suncor provides attractive dividend growth and will also benefit as the market recovers.

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