



Beat the Market With These 3 Energy Stocks

Description

Top performers today are pretty much [energy stocks](#) across the board. These stocks are beginning to show a clear path of strong returns, while the market, which is trading at highs, seems to have a less clear future and is lingering in overbought territory.

Precision Drilling Corp. ([TSX:PD](#))([NYSE:PDS](#)), up almost 10% yesterday, **Enerplus Corp.** ([TSX:ERF](#)), up 7.5% yesterday, and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), up 6.4% yesterday, are just a few of the energy names that are rallying.

But what is the cause of this rally, and is it sustainable?

On the supply side, we have increasing tensions in the Middle East, with the possibility of sanctions being re-imposed on Iran becoming more likely. Sanctions would result in an estimated 250,000-500,000 barrels-a-day drop in the country's exports by the end of the year, which would put a significant dent in supply numbers.

We also have sharply dropping Venezuelan oil production, which has already been halved from 2015 to below two million barrels a day, but which could see further downside, as the country still grapples with an economic crisis that is causing it to descend deeper into collapse.

On the demand side, things remain healthy, and the most recent report showed that U.S. crude stocks decreased by 2.7 million barrels, as the global economy continues to chug along.

In my view, these factors will continue to drive the price of oil, and the following [energy stocks](#) will beat the market this year.

Baytex's stock is trading below 2016 levels, despite the fact that oil has increased approximately 60% since then, and this disconnect represents an opportunity.

In the fourth quarter of 2017, Baytex reported adjusted funds flow of \$0.45 per share, an increase of 37%. This was driven by a 7% production increase compared to last year and higher prices, of course.

Let's recall that the company has been hit by the fact that it 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.

Precision Drilling is another stock that is likely to outperform the market this year. With big leverage to the oil price, this energy services company is seeing increased pricing and activity translating into increased revenue and free cash flow.

The fourth quarter of 2017 saw a 15% increase in revenue, and the full year posted a 34% increase in revenue.

Enerplus has been a beacon of strength in the oil and gas sector, but it remains undervalued. A top-notch balance sheet, operating performance, and cash flow growth profile set it apart from its peers.

With slightly less than half of its production coming from conventional crude oil, this \$3.4 billion oil and gas giant is benefiting from the sharp rise in crude and natural gas prices.

In the latest quarter, the fourth quarter of 2017, the company reported a 55% increase in cash flows, driven by increasing crude oil and natural gas prices and a 6% reduction in operating costs.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. NYSE:PDS (Precision Drilling Corporation)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:ERF (Enerplus)
5. TSX:PD (Precision Drilling Corporation)

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