Which Energy Stock Is the Better Buy? Crescent Point Energy Corp. vs. Baytex Energy Corp.

Description

The price of oil has risen dramatically. It is 26% higher than it was a year ago and 32% higher than it was six months ago.

While this is not a surprise to anyone, what may be a surprise is the fact that oil and gas stocks have not kept pace with these gains — not even close.

As oil maintains these trading levels, and the longer it is maintained, the more certain it is that oil and gas stocks will follow suit.

Let's look at two oil and gas stocks, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which are still hovering around their lows, despite the rally in the oil price.

With 90% of its production being oil, Crescent Point is exposed to the price of oil in a big way. Yet despite the sharp rise in oil prices, the stock is 30% lower than one year ago, leaving us to question the reasoning behind this.

Crescent Point has an enviable resource base. The company has exposure to large resource plays in lucrative plays, such as the Bakken, that have low-risk development opportunities with strong economics.

But this is where the good news ends. Over the last 10 years, the company has a history of issuing equity to make acquisitions and grow production, effectively diluting shareholders in the process.

And now this has all come to a head, as Cation Capital, a private investment firm, is taking action and trying to get four independent candidates on the board of the company to effect changes to the company's management compensation and strategy from one that is more focused on growing production to one that is more focused on shareholder returns.

Baytex's stock has been just as disappointing, as the company struggled from excessive debt levels.

At one point, it was even questioned whether it could remain as a going concern.

The stock is down 13% in the last year and seems to be recovering off its 2017 lows of below $3.

Debt is still very high at Baytex, but with accelerating free cash flow, this will be improved faster than the market is expecting and certainly faster than what is priced in to the stock.

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.

As a reminder, at $50 per barrel, Baytex is free cash flow neutral; at $55 per barrel, Baytex generates incremental free cash flow of $75 million; and oil at $65 per barrel means incremental free cash flow of $175 million.

Oil is currently trading at more than $66 and has been trading above $60 since the beginning of this year.

I think Baytex represents a better buy due to the fact that the company is experiencing operating momentum, and although its debt burden remains high, free cash flow generated will go a long way toward “fixing” this problem.

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