Baytex Energy Corp. Stock Is 1 Fast-Rising Energy Stock, and This Is Just the Beginning

Description

The price of oil continues to rise dramatically.

It is 39% higher than a year ago and 31% higher than six months ago, as geopolitical tensions have continued to escalate, supply disruptions have materialized and even worsened in different parts of the world (for example, Venezuela), and demand continues to be strong.

And while we are all aware of the comeback of oil, I would like to remind you of the fact that energy stocks have not kept pace with this new reality — not even close.

Let's look at three energy stocks, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), **Canadian Natural Resources Ltd**. (TSX:CNQ)(NYSE:CNQ), and **Freehold Royalties Ltd.** (TSX:FRU), which are still hovering at very attractive prices, despite this rally in the oil price.

Despite the fact that Baytex has rallied 33% since the beginning of the year, the stock still has big upside due to its leverage to rising oil prices as well as the fact that it is still trading at a discount because of its heavy debt load.

But while this debt load is a big problem at $40 oil, at current levels of almost $70, it ceases to be as big a problem, and the cash flow generated by the company acts as a buffer.

So, suddenly, this heavy debt load becomes more a reason that the stock will outperform and less a reason to not own it.

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.

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.

Canadian Natural Resources is another top energy stock with good leverage to rising oil prices.

It is special, because it offers a long-life, low-decline portfolio and oil and gas assets that have given the company a predictable and reliable stream of cash flow with little reserve-replacement risk. This means investors get exposure to the sector's upside while mitigating the downside risk.

In the fourth-quarter 2018 results, management reported a 60% increase in cash flow per share, as production increased 19%, and its realized price increased to $54.71 from $43.27 last year.

Furthermore, the company announced a 22% dividend increase, signaling their bullish long-term view.

Lastly, for the least-risky energy stock, we have Freehold, a royalty company that pays a 4.6% dividend yield, and that has a low payout ratio and a strong balance sheet.

Freehold is also currently seeing strong company fundamentals and recently instituted a 5% dividend increase as a reflection of that.

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1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:FRU (Freehold Royalties Ltd.)

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