



Energy Sector Investors: Is Baytex Energy Corp. or Inter Pipeline Ltd. a Top Stock to Buy Today?

Description

Oil prices continue to recover, and that is bringing a new wave of funds into the Canadian [energy](#) sector.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#)) (NYSE:BTE) and **Inter Pipeline Ltd.** (TSX:IPL) to see if one deserves to be in your portfolio right now.

Baytex

Baytex is back above \$5 per share for the first time in more than a year. Investors who'd picked the stock up for close to \$3 in early March are happy campers today, but long-term shareholders might not be overly impressed with the recent surge.

Why?

Baytex was a \$48 stock in the summer of 2014 and paid out an annualized dividend of \$2.88 per share. Unfortunately, the company closed a \$2.8 billion acquisition right at the peak of the market and quickly found itself facing a cash flow crunch as oil prices fell.

Things went from bad to worse, and by early 2016 the dividend was gone, and Baytex traded for close to \$2 per share. Volatility has been the name of the game since then, and the recent upswing is a perfect example.

Supporters of the company point to the strong resource base and say the stock is undervalued. There is a case to be made for that argument, as Baytex has estimated its net asset value to be above \$9 per share at much lower oil prices.

Debt is the main risk with the stock, and until the balance sheet is deleveraged, Baytex could continue to see strong moves every time the price of oil looks like it might roll over. If oil can hold or extend its gains, Baytex should be able to chip away at the debt position and allocate more funds to the capital plan.

IPL

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

The company reported record net income for full year 2017 and has taken advantage of the downturn to add strategic assets at attractive prices, including the \$1.35 billion purchase of two NGL extraction facilities and related infrastructure in 2016.

On the development side, IPL recently approved its \$3.5 billion Heartland Petrochemical Complex. The facility should be up and running by the end of 2021, and IPL is targeting long-term annual EBITDA of \$450-500 million from the assets.

IPL raised its dividend last fall, and the distribution should be safe, given the 2017 payout ratio of 62%.

At the time of writing, the stock provides a [yield](#) of 7.25%.

Is one more attractive?

Baytex likely offers more upside torque on a continued improvement in oil prices. If you think that's where the market is headed and have a contrarian investing style, the troubled producer might be an interesting first pick.

Investors who prefer to get paid to wait for better days, while also eyeing some nice potential upside, should go with IPL. The company's revenue largely comes from long-term contracts with major producers, and the uptick in oil prices should bode well for its conventional oil customers. The dividend looks safe, and the growth projects should boost cash flow available for distributions in the next few years.

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