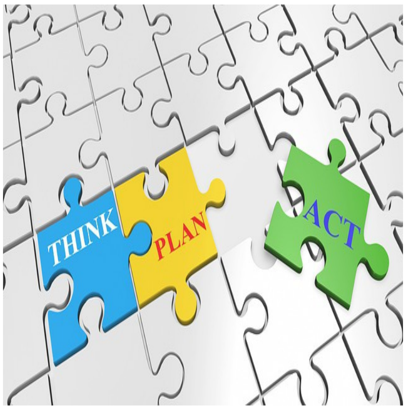

Cenovus Energy Inc. vs. Baytex Energy Corp.: Which Stock Is a Top Buy in May?

Description

The recent strength in oil, trading above $65 a barrel, has reignited investors' interest in top energy stocks.

Oil prices rose to three-year highs earlier in April, fueled by tensions in the Middle East, strong global demand, and signs that the OPEC-led deal to control supply is working. Speculation that U.S. president Donald Trump will get out of the Iran nuclear deal has also helped fuel more gains in oil prices.

This surge is good news for oil bulls who have long waited on the sidelines to see signs for a meaningful recovery in the energy markets.

Let's have look at **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) — two companies whose fortunes are closely tied with the moves in oil markets — to analyze how well positioned they are to take advantage of this improved pricing environment.

Cenovus Energy

The story is not that straightforward for Cenovus, one of Canada's largest oil sands producers. Despite the recovery in oil prices, the company has been facing significant hurdles when it comes to moving its energy products due to the pipeline capacity constraints in Canada.

The company said in March that it was forced to operate at lower capacity due to the maxing out of pipelines and other routes, through which it sends heavy oil south to U.S. markets.

These pipeline bottlenecks have skyrocketed the discount that buyers seek for Canadian oil over U.S. light crude. Cenovus said its differentials averaged $24.28 per barrel in the first quarter — a 67% jump when compared with last year.

That, in turn, hurt Cenovus's profit per barrel. Netbacks, profit after subtracting transport and other expenses, averaged $16.80 per barrel of oil equivalent in the first quarter compared with $21.25 a year earlier.

These constraints have hurt the company's profitability in the first quarter and clouded the outlook for 2019, despite the company's successful efforts to sell its assets and reduce its debt load.

Baytex Energy

Baytex seems to be managing the capacity constraints better than Cenovus and hasn't yet cut its production targets for 2018.

In the last update in March, the company said it was executing its first-quarter drilling and development program as planned "with improved WTI pricing partially offsetting the widening of the WCS differential."

This is a very encouraging news for investors, who saw Baytex stock plummet after the 2014 downturn in oil prices. Before energy markets went through the worst slump in decades, Baytex had bought some energy assets at the peak of the oil boom, taking on huge debt on its balance sheet. This bad luck forced the company to cut its dividend, renegotiate its debt, and slash its development plan.

But improving oil prices are helping Baytex generate higher cash flows from these assets. Baytex expects to break even on free cash flow if oil price stays at US$55 per barrel, and anything above that leaves more cash to pay down its debt and increase dividend payouts.

The bottom line

If you look at the price chart, Baytex, with 41% gains this year, seems to be the clear winner. Cenovus stock, up just 4% during the same period, is underperforming, as investors stay on the sidelines to see how Canada resolves its pipeline capacity issues.

That said, both stocks remain in a turnaround mode with a significant upside potential in the years to come. But these names are only suitable for high-risk takers who have an investment horizon of at least five years. I would take an equal exposure if I have some cash to spare for these contrarian bets.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2018/04/30
Author
hanwar