Is Baytex Energy Corp. or Canadian Natural Resources Ltd. a Better Stock for Your Energy Pick?

Description

Renewed interest in energy stocks has investors scrambling to find the best picks for their portfolios.

Let's take a look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) to see if one is more attractive today.

Baytex

Baytex is up 60% in the past month to $5.80 per share. That's great news for investors who had the courage to step in at $3.50 in early April, but it might not be overly exciting for long-term holders of the stock.

Why?

Baytex traded for $48 per share in 2014 when WTI oil sold for US$100 per barrel. The company, unfortunately, closed a major acquisition in June of that year, just before oil began its downward trend, and Baytex quickly found itself facing a cash crunch, as margins dried up in the following months. By December 2014, Baytex had slashed its dividend, and investors watched in disbelief as the stock fell to $15 per share.

The situation went from bad to worse, and by January 2016, Baytex was down to $2. Since then, the stock has been quite volatile, making large short-term moves on any sign of a rally or pullback in the market.

Fans of the stock look at the asset base and see significant upside opportunity on a continued rebound in oil prices. Baytex has estimated its net worth to be above $9 per share at oil prices that are lower than the current level. Even after the recent rally, big gains could be on the way.

Debt, however, remains the wildcard, as Baytex finished 2017 with net debt of $1.7 billion. The company's market capitalization is up to $1.4 billion at the time of writing, which makes the load look a bit less daunting, but management needs oil prices to stay high enough to generate adequate cash flow to chip away at the debt, while boosting the capital plan to increase production.

CNRL

CNRL is at the other end of the energy-company spectrum, in that it weathered the oil rout in good shape and took advantage of its strong balance sheet to acquire new assets to drive future growth. The company has a balanced revenue mix, with oil sands, conventional oil, and natural gas businesses. CNRL prefers to have a 100% ownership position in its assets, which gives management the flexibility to move capital to the highest-return opportunities in step with shifts in market prices.

CNRL recently raised its quarterly dividend to $0.335 per share, marking the 18th straight year the company has raised the payout. At the time of writing, investors can pick up a yield of 3%.

Is one more attractive?

Baytex likely offers more upside torque as oil prices improve, but the stock also carries higher risk if the market reverses course. Investors with a contrarian style and a stomach for volatility might want to go with Baytex as the first choice.

Otherwise, CNRL is a safe way to play the recovery in the energy sector, and you get access to decent dividend growth along the way.

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