



Should You Buy the Rally in Baytex Energy Corp. or Cameco Corp.?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) and **Cameco Corp.** ([TSX:CCO](#))(NYSE:CCJ) are trading at 12-month highs, and investors are wondering if more gains could be on the way for these [long-suffering](#) stocks.

Let's take a look at the current situation to see if Baytex and Cameco deserve to be in your [portfolio](#).

Baytex

Baytex has surged from close to \$3 per share in early March to \$6. That's an impressive move over such a short period of time, and the investors who had the foresight to get in at the recent lows are certainly patting themselves on the back today.

Drastic moves have been the name of the game for Baytex over the past two years. The stock bottomed out around \$2 in early 2016 and has pretty much surged or tanked continuously since then on any signal in the market that oil could jump higher or reverse course.

The volatility is essentially due to the company's debt level. When oil moves higher, investors feel more comfortable that Baytex can generate enough cash flow to chip away at the debt and boost the capital plan. The recent move in WTI oil above US\$70 per barrel is certainly positive, and further gains could send Baytex even higher. The company has avoided a fire sale of its prized assets and has even estimated its net asset value to be above \$9 per share at much lower oil prices.

Going back to the summer of 2014, Baytex was a \$48 stock, so long-term investors might not be overly impressed with the recent move. However, the historical price is also an indication of how much upside potential there is if Baytex can find a way to wipe out its debt and significantly increase production.

Cameco

Cameco's 35% surge in the past three months is a bit of a surprise. The company continues to struggle with low uranium prices, and there is little evidence to suggest the market is on the verge of a recovery.

At the time of writing, uranium spot prices are trending around US\$22 per pound, which isn't too far off the multi-year lows. To put things in perspective, uranium traded for US\$70 per pound in early 2011, right before the tsunami hit Japan.

The Fukushima nuclear disaster forced Japan to close all of its nuclear reactors, and while the country is working hard to get the fleet back in service, progress is slow. According to a March report by *World Nuclear News*, seven of the country's 42 operable reactors have received restart clearance.

Fans of Cameco say the stock could be a tightly coiled spring just waiting for the tide to turn in the uranium market. It's true that annual uranium demand is expected to increase as much as 50% through 2030, and production cuts across the industry should eventually shift the supply balance.

For the moment, however, secondary supplies are filling demand gaps, and utilities are not rushing to sign up for new long-term supply agreements.

Cameco is also caught up in a battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated by a foreign subsidiary. If the company loses the case, the hit could be north of \$2 billion.

Cameco's annual guidance remained unchanged when it reported Q1 results, and there was no indication in the statement to indicate the uranium market is turning the corner.

Should you buy?

Both stocks continue to carry risk, so I wouldn't back up the truck for either one.

That said, contrarian investors who think the oil recovery has legs might want to start a small position in Baytex.

Regarding Cameco, the recent rally might be connected to geopolitical noise or some short covering, but I wouldn't chase it at this point. There simply isn't any fundamental reason for buying the stock today, and a negative decision on the CRA case could send the share price back to the 2017 low.

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