Contrarian Investors: Is Baytex Energy Corp. or BCE Inc. a Better Bet Today?

Description

Contrarian investors often seek out unloved stocks that could be trading at unreasonably low prices.

Let's take a look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) to see if one deserves to be in your portfolio right now.

Baytex

Baytex is enjoying a nice rally that has lifted the stock from $3 in early March to above $6 per share. Investors who had the courage to step in a few months ago are celebrating the 100% gains, but long-term holders of the stock might not be overly impressed.

Why?

The recent surge isn't much comfort for those who bought the stock for $48 per share in 2014, before the bottom fell out of the oil market.

Baytex made a big acquisition right before the crash that loaded up the balance sheet with debt. The assets, which are located in the Eagle Ford play, are top notch and remain the key to the company's future, but Baytex needs to find a way to lower the obligations.

Net debt at the end of Q1 2018 stood at $1.8 billion, which is high for a company that has a market capitalization of $1.4 billion. The recent rise in the stock price has improved the situation, but any dip in oil prices could send the stock tumbling again.

That said, the upside potential could be significant. Baytex has estimated its net asset value to be above $9 per share at oil prices that are much lower than current levels.

BCE

BCE might seem like an odd pick for a contrarian investor, but the stock has come under heavy selling pressure in recent months, falling from close to $63 per share in December to the current price of $54.

What's going on?

Rising interest rates have investors worried that go-to dividend stocks, such as BCE, might be dumped in favour of fixed-income alternatives. In addition, rising rates can lead to higher borrowing costs, which could put a dent in cash flow available for distributions.

These are valid points, and a major surge in interest rates could trigger more downside for BCE, but the sell-off might already be overdone.

BCE's dominant position in the Canadian market is unlikely to change, as the company continues to invest billions to ensure it stays at the top of the industry. The media, wireline, and wireless business units combine to create a powerful company that has the capability to interact with most Canadians on a weekly, if not daily, basis.

If BCE needs a bit of extra cash, it is large enough that it can simply raise the prices it charges for its services.

Investors shouldn't expect to see a 100% rally in the coming months, but the dividend looks rock solid and currently provides a yield of 5.6%.

Is one more attractive?

Contrarian investors with a stomach for volatility might want to make Baytex the first choice today. Oil prices continue to chug higher, and some pundits are even predicting a surge back to US$100 per barrel. If that's where we are headed, Baytex deserves to be on your buy list.

Investors looking for oversold dividend stocks might want to consider BCE. The stock appears attractive at the current price, and while higher interest rates are likely on the way, it will be quite some time before a GIC provides a 5.5% yield.

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