Contrarian Investors: Is it Time to Buy Baytex Energy Corp. or Cenovus Energy Inc.?

Description

Contrarian investors are constantly searching for unloved stocks that could be on the verge of a recovery.

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Let's take a look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) to see if one is an attractive pick right now.

Baytex

Baytex is pulling back after a burst that saw the stock surge nearly 100% from about $3 in early March to above $6 per share in the first part of May. That's great news for investors who had the guts to jump in at the low, but the move might not be much of a consolation for long-term holders of the stock.

Why?

Baytex traded for $48 per share in the summer of 2014 and paid out a generous dividend when WTI oil was US$100 per barrel.

Unfortunately, the company made a major acquisition right near the peak, loading up the balance sheet with debt. As oil prices fell, cash flow dried up, and Baytex had to scramble to keep the company afloat. To their credit, the management team made the right moves to ensure Baytex would survive. They cut the dividend early and renegotiated terms with lenders while the opportunity was available. Baytex also took advantage of a mini-recovery in oil in 2015 to raise capital.

Those decisions have allowed Baytex to hold on to its top assets, and that's why contrarian investors like the stock. Baytex has estimated its net asset value to be above $9 per share at oil prices that are much lower than the current level. If you think the calculation is valid, Baytex still holds some attractive upside potential.

Debt remains a concern, and that will continue to fuel volatility in the stock, as we have seen in recent weeks with oil's latest retreat from the highs.

Cenovus

Cenovus has also had a rough run in recent years.

The oil sands producer traded for more than $34 in 2014. Today, investors can pick it up for about $13 per share, and that's after a 40% rally over the past three months.

The company made a big bet last year when it spent $17.7 billion to buy out its partner, **ConocoPhillips.** On the surface, the deal makes sense. Cenovus already operated the assets and instantly doubled its production and resources. The market, however, didn't react favourably, as Cenovus had to take on a $3 billion bridge loan to cover the deal, while it shopped non-core assets.

Oil prices recovered through the second half of 2017, enabling Cenovus to find the buyers it needed. As a result, Cenovus paid back the loan and is now focused on improving operating efficiencies at its sites.

On the cash flow side, the company hasn't benefited as much as it could have from the surge in oil prices over the past year due to large hedging positions put in place at the time of the 2017 acquisition. In fact, realized risk-management losses came in at $469 million in Q1 2018.

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This is a short-term issue, and Cenovus should see better days in the second half of 2018, assuming oil holds at current prices or extends its recovery.

Is one more attractive?

You have to be an oil bull to own either producer today. If you fall in that camp, both companies should benefit from a continued recovery.

Baytex likely offers more near-term upside torque on a spike in prices, but it is also much smaller and carries more downside risk. Cenovus might be a better bet if you have a buy-and-hold investing style and simply want to tuck the stock away for a decade.

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