Baytex Energy Corp. (TSX:BTE) vs. Cenovus Energy Inc. (TSX:CVE): Which Stock Is a Better Buy?

Description

With oil prices finding a new range between $65 and $70 a barrel, there is a lot to be excited about Canada's energy stocks.

For many producers, oil prices above $60 a barrel mean growing cash flows, which they can use to pare down their high debt levels. And if their financials allow, they can also start paying dividends.

If you're an oil bull, waiting on the sidelines for the right moment, you should consider buying **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE). Let's have a deeper look to see which beaten-down energy stock is a better buy in today's market.

Baytex

It's been a steep decline for Baytex stock since the oil sands producer announced its intention to buy rival western Canadian oil producer **Raging River Exploration Inc.**, in a $1.6 billion deal on June 18.

Baytex shares tumbled 34% from this year's high. In the deal, Raging River investors will receive 1.36 common shares of Baytex for each share they own.

While the deal creates a "more investable" producer with a better balance sheet and a stable of assets stretching from northern Alberta to southern Texas, the all-stock transaction waters down Baytex's 2019 cash flow per share by 19%, a *Bloomberg* report said, citing Greg Pardy, an analyst at **Royal Bank of Canada**.

For contrarian investors, I think this slump presents a good buying opportunity. In the long run, this deal is net positive for Baytex, which will have heavy and light oil assets across North America, including about 260,000 acres in Canada's emerging East Duvernay Shale basin and 36,000 barrels of daily production from the Eagle Ford in Texas.

Analysts see the company's total output reaching about 100,000 barrels of oil equivalent a day when these assets are combined. And this is happening at a time when improving oil prices are helping Baytex generate higher cash flows from existing fields.

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.

Cenovus Energy

Cenovus, another big oil sands producer in Canada, has also failed to create excitement for its stock this year, despite a strong price recovery in energy markets. The company has faced a significant hurdle in shipping 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. Besides this capacity constraints, investors are also keenly watching how fast Cenovus is able to cut its debt level, so it can improve its credit ratings.

Early this year, Cenovus said it will consider selling more of its holdings in Alberta's Deep Basin to speed up efforts to repair its balance sheet. The company's leverage deteriorated after it borrowed to fund its $13.3 billion acquisition of **ConocoPhillips's** oil sands and Deep Basin holdings last year.

Which stock is a better buy?

Both Baytex and Cenovus stocks present a good turnaround bet 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.

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