2 Oil Companies That Got Slaughtered and May Come Roaring Back

Description

A number of oil companies got decimated in the oil price carnage a few years ago. While much of the damage was spread across all stocks in the sector, some stocks have come back, and some have yet to recover. With oil prices beginning to come back from previous lows, it is worth taking a look at some of these former high flyers to see if their balance sheets and strategies warrant purchasing their shares today.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) and **Gibson Energy Inc.** (TSX:GEI) are examples of oil companies that went through tough times and may be poised to come back from their depressed prices. Both companies discussed in this article have similar market cap sizes, although their risk profiles and potential upside are considerably different.

Baytex Energy Corp.

Baytex had quite a wild ride over the past several years. A few years ago, Baytex stock was approaching $60 a share. After the oil price carnage, the stock fell to where it is currently sitting at around $4 a share. While this in no way means the stock needs to go back to $60, it does suggest that a continued turnaround in oil prices and a stronger balance sheet may give this stock a boost.

Baytex lacks a dividend, having cut it completely during the oil collapse. However, given the debt that Baytex has on its books, it was probably a good move by management to cut the dividend. The company has been improving its operations and is paying down debt, with total debt down 4% year over year. Production was flat over the same period, and adjusted fund flows were down, primarily due to the differential between U.S. and Canadian crude prices.

The company announced that it is seeking to merge with **Raging River Exploration Inc.** The merged company, if it goes through, will have control of some excellent oil assets and should be in decent shape to take advantage of a favourable oil price environment.

Gibson Energy Inc.

While Gibson's fall was not as dramatic as Baytex's, it was close. At its height, Gibson was approaching $40 a share and fell back to around $12 a share at its low. The stock has since recovered somewhat but is still only up to just under $18 a share — a far cry from its highs.

One thing I like about this stock is the fact that it did not cut its dividend during the price collapse and now pays around 7.5% at the current share price. While I never say a commodity stock's dividend is safe, the fact that oil fundamentals have been improving suggests that the company would not cut it now. If the company were to cut the dividend, it probably would have done so when oil prices were heading lower.

Key takeaways

These companies are more speculative in nature than others in the sector. It is primarily due to the fact that they have been punished so severely that there may be significant upside potential. However, even though these companies may have good assets, they also have a lot of long-term debt and are therefore potentially riskier investments.

But the very fact that these companies have tested so fully makes the upside seem more likely than the downside. Both Gibson and Baytex have similar issues, with large amounts of long-term debt and very little to no short-term debt. The stock with the most upside potential would be Baytex, especially after its merger with Raging River. Gibson would be the relatively more cautious play, given its dividend and slightly stronger financial position.

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