



## 2 Beaten-Down Energy Stocks: Will They Recover This Year?

### Description

Oil prices have continued on a volatile but sustained a recovery so far in 2018, even after the recent setback in July, but a notable industry player, **Ensign Energy Services Inc.** ([TSX:ESI](#)) stock is down 11% year to date, while an earlier outperformer **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) stock is down 25% over the last three months. Could we see recoveries in these energy company's equity valuations this year?

Possibly.

The two stocks have some interesting positives in store for the year.

### Ensign Energy Services

Ensign is an oil drilling and well services company that is engaged in providing oilfield services to the crude oil and natural gas industry in Canada, the United States, and internationally.

The stock is down almost 70% from its \$17.50 trading range in 2014, and its flat (since January 2015) \$0.12 quarterly dividend now yields a juicy 8.68% on a forward basis today.

Volatile and low oil prices significantly impacted Ensign's clientele in the past few years, as customers endured low or negative cash flows, leading to declining demand for the company's services, and the stock is trading at a deep discount to book value of almost 50% after reporting ever-increasing operating losses since 2015.

It is very encouraging that the company has recently started to report growing quarterly revenues, as demand for drilling services has rebounded with the sustained rally in the price of oil, and Ensign equity valuation could be on a rebound this year.

The company's geographical revenue segments have not been recovering at the same pace.

The resumption in exploration contracting saw Ensign report a 16% year-on-year growth in the top line in 2017 and an adjusted operating earnings growth of 9% from 2016, but most of that growth was led

by the U.S. segment.

In the first quarter of this year, there was a drop in both Canada drilling days and EBITDA year over year for the quarter — something management said is “a symptom of a larger macro geopolitical problem,” while the U.S. segment saw a 30% increase in activity year over year for the first quarter, and EBITDA increased 21% for the same period.

As another positive, the company will benefit greatly from a currently weak Canadian dollar, as 74% of its revenue is generated either from the U.S. (46%) or from international clients (28%).

Further, Ensign could report further growth in the U.S. segment this year after reactivating six rigs in that market earlier this year, and the company was enjoying 70% utilization rate in its well-servicing business line exiting the first quarter 2018.

I expect exploration and drilling spend to grow in the industry going forward, as oil prices sustain the rally up this year, leading to revenue growth for Ensign and potentially resulting in a return to profitably as the year goes by, saving the company’s 23-year record of paying dividends.

## Baytex

Baytex is one oil-producing company that has been hard hit by a prolonged depression in the oil market, but there have been some recovery signs over the past two reported quarters, as the company finally started reporting positive operating earnings, thanks to the current oil price rally.

The company has been [heavily levered to oil prices](#) due to its heavy oil portfolio and huge debt overhang, but this phenomenon is likely to see some dilution soon.

The company’s announced acquisition deal with **Raging River Exploration Inc.** is up for shareholder votes on August 21., and this deal, if passed, could add significant light oil assets to Baytex’s portfolio, while reducing the company’s overall debt ratio.

The deal does come with dilution, hence the plunge in the stock, but I also presume that Raging River investors have been fretting over the currency of the deal.

The merger will use Baytex shares as the deal currency, yet the stock has experienced stomach-churning volatility over the last few years.

Most noteworthy, the Raging River deal may actually allow Baytex to dispose of some assets and reduce its current indebtedness, and it will create a much bigger oil entity that could command some visibility in the institutional investor space, bring better price discovery and stability to the stock’s valuation, while allowing access to cheaper financing.

Baytex stock may recover this year.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:ESI (Ensign Energy Services Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
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## Date

2025/08/27

## Date Created

2018/07/30

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