Energy Stocks on the Cheap! Which One Will You Buy?

Description

A falling WTI oil price had the energy stocks sliding, too. The WTI oil price of US$64.90 per barrel as of writing is near a three-month low. If the WTI oil price breaks US$64, it could march on to the six-month low of about US$60 per barrel.

With that backdrop in mind, let's explore which stock you might consider: **Baytex Energy** (TSX:BTE)(NYSE:BTE) or **Vermilion Energy** (TSX:VET)(NYSE:VET).

Baytex Energy

Baytex Energy is a popular oil-focused producer with a production mix of about 80% oil. The small-cap producer is indeed cheap.

At $3.56 per share as of writing, Baytex Energy trades at less than half of its book value and a price-to-sales ratio of 0.75. The stock is cheaper than it was during the last recession!

One thing that might stop investors from investing in the stock is that Baytex Energy carried about $1.76 billion of long-term debt on its balance sheet at the end of the second quarter.

However, the large debt levels will be less of a problem once Baytex Energy merges with **Raging River Exploration** (TSX:RRX), which has a cleaner balance sheet; the transaction is expected to close on August 22 once shareholders from both sides approve the deal.

The combined company will focus on a self-funding business model with per-share growth and will aim for an annualized total return of 10-15%. Initially, it would have net-debt-to-adjusted-funds-flow of more than two, but it aims to reduce that to 1.5 in two years' time and further reduce its debt levels to less than 1.5 times after that.

Although Baytex Energy is cheap, it's swimming in debt, and there's a chance that the merger won't go through. If and when it does, the combined company still has a large amount of debt to pay down.

Image not found or type unknown
Oil pipes in an oil field
Image source: Getty Images.

Vermilion Energy

Vermilion Energy trades at a premium valuation, but it is a mid-cap oil and gas producer with internationally diversified assets and good management. Its overseas assets produce Brent oil and European gas, which enjoys premium pricing.

At $40.25 per share as of writing, Vermilion Energy trades at 2.4 times its book value and 4.4 times price-to-sales. Vermilion Energy offers a competitive dividend yield of about 6.8%.

Vermilion Energy's payout ratio will be temporarily high at about 90% this year after accounting for its capital spending for the year. Now close to $40 per share, Vermilion Energy is on sale. Of course, if it falls below $40, it'll be an even more attractive buy.

Investor takeaway

Baytex Energy is heavy in debt. Even if it merges with Raging River Exploration successfully, its debt levels will still be above average.

Vermilion Energy also had some M&A action by gobbling up Spartan Energy at a good valuation earlier in the year. The deal was estimated to be accretive to its funds-from-operations per share by 15% and production per share by 7%. It also offers an attractive 6.8% dividend yield.

Between the two energy stocks, it's easy for me to choose Vermilion Energy over Baytex Energy. Which one will you choose?

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/23
Date Created
2018/08/19
Author
kayng