Contrarian Investors: 2 Unloved Oil Stocks That Could Soar in 2019

Description

Oil prices have rallied 40% over the past 12-months, but some beleaguered producers continue to trade near multi-year lows.

Let's take a look at two beaten-up Canadian oil stocks that might be interesting picks for contrarian investors today.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE)

Baytex used to be a high-flying dividend darling, but an ill-timed acquisition saddled the company with significant debt, and management eventually shelved the distribution in an effort to preserve cash and survive the rout.

The pain can be traced back to a big purchase in 2014 that gave Baytex a foothold in the Eagle Ford shale play in Texas. Unfortunately, oil began its slide from US$100 per barrel shortly after the deal closed, and Baytex saw its share price plunge from $48 to an eventual low of $2 in 2016. The stock has been quite volatile since then, surging or falling sharply on shifting sentiment in the oil patch.

At the time of writing, Baytex trades for $3.50 per share.

On the positive side, Baytex recently completed its merger with Raging River. The combined company has a better balance sheet and owns attractive assets in the Viking, Peace River, Lloydminster and East Duvernay areas in Canada, as well as the Eagle Ford assets in the United States.

The company plans to spend $750-$850 million on development next year, with a resulting average daily production increase of about 5%. Assuming WTI oil averages US$63 per barrel, Baytex is targeting adjusted funds flow of $900 million and free cash flow of $325 million. This would enable the company to internally fund the capital program and start chipping away at the debt position.

Each additional $5 per barrel in the average WTI price would boost adjusted funds flow by $130 million, so there is an opportunity for a nice upside surprise. In the August 22 update, Baytex said it might even reinstate the dividend in 2019.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

Crescent Point also had a rough run over the past four years.

Like Baytex, the stock fell from grace with investors after it was forced to drastically reduce its monthly dividend for $0.23 to the current level of $0.05. Crescent Point traded for close to $40 per share five years ago. Today, investors can pick it up for $7.50. That actually makes the existing dividend quite appealing, with a 4.8% yield, as long as it survives.

Crescent Point's new management team is working hard to right the ship. The company recently completed a review process of the asset base to identify top properties that generate high returns, are scalable, and have the potential to produce strong free cash flow. As a result, smaller scale properties and some midstream assets will be monetized to clean up the balance sheet and make the company more efficient.

In the latest update, Crescent Point said it intends to lower net debt by $1 billion through the end of 2019. In addition, the company is reducing its headcount by 17%, a move that will save $50 million in annual expenses.

As the company makes progress on the transition plan, the market should start to have more confidence in the stock.

The bottom line

Baytex and Crescent Point appear to be turning the corner. If you have a bullish view of the oil market, this could be an interesting time to take a small contrarian position in these stocks.

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