Will Baytex Energy Corp. (TSX:BTE) and Other Canadian Energy Stocks Finally See Relief?

Description

With WTI oil trading below $70 again at a time that has been volatile and uncertain for energy stocks here in Canada, I think it would be a good idea to sit back and reassess the situation.

The most important factor that is dragging Canadian energy stocks down is the discount that Canadian oil is trading at — a discount that keeps widening and putting pressure on the sector.

But is this a blip that will be resolved, hence making today a very attractive buying opportunity? Or is it a sign of a fundamental, systemic problem?

Well, it's a bit of both; although there is clearly a big problem that will take some time to rectify, that doesn't mean that it isn't also a very attractive buying opportunity.

I view the LNG Canada approval as a very positive sign that the Canadian government and stakeholders understand that certain projects need to go through in order to ensure the viability of the very important energy sector in Canada.

I view the fact that oil-by-rail volumes are increasing and being pushed to increase even more as a mitigating factor to the pressure Canadian oil prices are experiencing.

Canadian oil-by-rail shipments reached an all-time high of 204,000 barrels per day in June, with expectations that this number will possibly double by the end of this year. That's big relief.

And I view the fact that expansion projects, which are much easier to implement than whole new pipelines, are being advanced as a positive.

For example, **Enbridge** (TSX:ENB)(NYSE:ENB) has $7 billion worth of pipeline projects that will be completed this year, which will increase capacity.

Here are three top Canadian energy stocks to buy on weakness:

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is a cash machine that continues to generate strong cash flows and returns for shareholders, yet CNQ stock is down 20% year to date.

In the first six months of 2018, Canadian Natural has seen a 38% increase in funds from operations per share and free cash flow of approximately $2.2 billion.

With a 3.68% dividend yield and a predictable and reliable stream of cash flow with little reserve-replacement risk, Canadian Natural Resources stock remains a top pick for energy exposure.

Cenovus Energy (TSX:CVE)(NYSE:CVE)

In the last four or so years, Cenovus has reduced its oil sands operating cost per barrel of oil by more than 40% to well under $9, and its oil sands sustaining capital requirements by more than 50% to approximately $6.

The $17.7 billion acquisition of assets from **ConocoPhillips** in 2017 has served to dramatically increase the company's production profile and drive strong cash flow growth.

As free cash flow ramps up in 2018 and 2019, I think we can expect to see increasing dividends, debt reduction, and more share buybacks — all catalysts for strong performance for Cenovus Energy stock.

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

Baytex's merger with Raging River Exploration closed in August, and the combined company has solved the two biggest problems for Baytex, making it a solid pick.

The acquisition strengthens Baytex's balance sheet, bringing its net debt to equity ratio to below two times from three times, and it diversifies its production base, giving the company quality light oil assets and land in the Duvernay area in Alberta.

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Date
2025/08/27
Date Created
2018/10/26

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