Is Crescent Point Energy Corp (TSX:CPG) or Baytex Energy Corp (TSX:BTE) Stock a Buy Right Now?

Description

Falling oil prices and additional pipeline woes are taking a toll on Canadian oil stocks. For companies that never had a chance to clean up their balance sheets after the last plunge, the situation is starting to look bleak.

What's going on?

Another delay in the Keystone Pipeline and the ongoing challenges the Canadian government is facing with the Trans Mountain Pipeline are providing little hope that Canadian producers will be able to get their product to higher-priced markets in the near future.

The differential between Western Canadian Select (WCS) and WTI prices has widened to about US$40 per barrel, putting the WCS price at the time of writing at just US$18 per barrel. With such a dismal outlook, investors are giving the oil sector a wide berth, but contrarian types are starting to kick the tires on companies that own attractive assets.

Let's take a look at **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) and **Baytex Energy** (TSX:BTE) to see if they deserve to be on your contrarian buy list.

Crescent Point

Crescent Point currently trades for $5.50 per share. In the summer of 2014 it fetched $45. The long slide has been a painful one and despite the overhaul in top management earlier this year, the stock continues to fall.

The new executive team is working hard to right the ship. Staff cuts have resulted in $50 million in annual cost savings and planned non-core assets sales should help reduce debt.

Crescent Point has 40% of its 2019 oil and liquids production hedged at CAD$78 (roughly US$60) per barrel. This should help mitigate the revenue hit if oil continues to fall. In addition, a significant part of the production is located in the United States.

The company finished Q3 2018 with net debt of $4 billion. That's an issue given the current market capitalization is about $3 billion.

Crescent Point still pays a monthly dividend of $0.03 per share, but investors shouldn't count on the payout remaining in place if oil prices continue their recent slide. The current yield is 6.45%.

Baytex

Baytex traded for $48 per share in the summer of 2014. Today, investors can buy the stock for $2.50.

The company merged with Raging River Exploration a few months ago, and while the deal helped strengthen the balance sheet, the market didn't react favourably, and Baytex is now trading at a level last seen in early 2016 when WTI oil was below US$40 per barrel.

The company's U.S.-based assets in the Eagle-Ford play are able to get WTI pricing for their production, and new crude-by-rail agreements in Canada will result in reduced exposure to WCS pricing in 2019.

As with Crescent Point, the debt situation remains a concern. Baytex finished Q3 with net debt of $2.1 billion. At the time of writing, the company has a market capitalization of $1.4 billion.

Is one a buy?

Crescent Point and Baytex have attractive assets and both look cheap right now, but that doesn't mean the stock prices won't continue to slide, and at these levels, the stock moves can be significant on any big news in the oil market.

At some point, I would expect the two companies to be bought out by larger players with stronger balance sheets, but betting on a takeover premium is a risk strategy right now.

If you think oil is going to rebound in 2019 and are of the opinion that the pipeline issues in Canada will be resolved in the next couple of years, these stocks offer some nice upside potential on better days. However, I would keep any speculative bets small at this point.

Other opportunities might be more attractive contrarian plays today.

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