
# 3 Energy Sector Options With Risk and Potential

## Description

There's no denying the fact that Canada has an incredibly dominant energy sector that comprises some of the best investments to hold for long-term growth. Unfortunately, some newer investors may see that sprawling selection of companies as intimidating, and more experienced investors may be unwilling to venture outside their comfort areas.



Here are some investment options to consider that promise growth or income prospects to nearly every portfolio.

**Baytex Energy** (TSX:BTE)(NYSE:BTE) is just one of several energy stocks that got absolutely decimated over the past few years. The Calgary-based company is an explorer and developer of both oil and natural gas.

Several years ago, Baytex was considered by many to be an excellent long-term option; the company had a handsome dividend and had just acquired assets in the U.S. that were slated to boost earnings and allow Baytex to make larger debt payments.

Unfortunately, oil prices dropped from those near-US$100 levels, and with it, so did Baytex's stock price. The company was forced to slash and then do away with its dividend entirely, while watching its stock price plummet from $48 to the current level of just under $2.40.

So, where does the opportunity for investment lie?

Baytex announced a promising set of results this month, which were largely attributed to the company's recent Raging River Exploration. A discovery along the Duvernay shale in Western Canada is also reason to be optimistic about the stock, which is arguably entering oversold territory.

In short, Baytex may be an option for those investors with an appetite for risk with long-term plans that want to diversify their portfolios.

**Encana** (TSX:ECA)(NYSE:ECA) is another interesting option to consider. Encana is an energy producer of oil, natural gas, and natural gas liquids with operations in both Alberta and Texas.

Judging by the performance of the stock over the past month, there are a lot of investors that would likely prefer to sidestep it; it has dropped over 45% year to date.

Where does the opportunity lie with Encana?

The company recently announced a massive $5.5 billion acquisition for **Newfield Exploration**. What's interesting about the deal is that both Newfield and Encana are large players in the field that will likely benefit from cost synergies of combining operations, which is largely out of the minds of investors, who have so far responded negatively to the deal, as Encana's stock has dropped over 30% in the past month alone.

Still, the deal, which is expected to close early next year, is also set to usher in a whopping 25% increase to the company's dividend as well as an aggressive share-buyback program, all of which point to some significant growth opportunities on the horizon.

Also worth mentioning is the slew of stock purchases by company executives and board members since the Newfield deal was announced.



**Crescent Point Energy** (TSX:CPG)(NYSE:CPG) is another beaten-up stock to pick up.

Unlike the other two stocks mentioned above, Crescent point offers an appetizing dividend with a yield of 6.20% to investors, but that's not the only reason to consider Crescent Point today; in fact, I would discount the dividend almost entirely from the equation for two compelling reasons.

First, Crescent Point's stock has seen better days. Year to date, the stock has tanked over 50% and pulling out to a two-year return shows an even more dismal 73% drop in share price. To be blunt, that drop is inflating the perceived yield on offer.

The second point has to do with earnings or, more specifically, lack thereof. The oil sector is being squeezed at the moment on aggressive pricing, which could, in theory, if prolonged, result in the company slashing its dividend. So, in short, while the dividend looks nice for the moment, don't make it the sole determining factor.

What, if anything, poses an opportunity for investors?

A new management team at the company is diligently looking at opportunities for cost savings as well as potential asset sales to slash debt. Additionally, most of Crescent Point's production lies in the U.S., where prices are higher.

In short, Crescent Point is a value play for long-term investors with an appetite for risk.

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