Are Energy Stocks Poised for an Early Run?

Description

Canadian energy stocks suffered steep declines in the final months of 2018. The Alberta oil patch was plunged into crisis as Western Canadian Select (WCS) prices fell to all-time lows, while the price gap with West Texas Intermediate grew to over $45. In response, Alberta premier Rachel Notley announced production cuts that sparked a run for WCS prices. However, this has also resulted in a pushback from oil patch workers in the province.

Oil prices received another bump on January 7, as Saudi Arabia has signaled its intention to push prices upward and pursue production and export cuts of their own. This is a promising start to the year in a sector that has seen many stocks hit 52-week lows in recent weeks. Is it worth it for investors to take a flier on some of Canada's energy darlings? Let's dive in.

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

Baytex stock has climbed 12.7% over the past week as of close on January 7. Shares are still down 31% over a three-month span. The stock hit a 52-week low of $1.87 in the final trading week of December.

As far as its technicals are concerned, Baytex is not exactly a screaming buy in early January. The stock last boasted an RSI of 56, indicating it is in a neutral range and well outside oversold territory. Debt reduction at Baytex is still a top priority as we kick off 2019, and some analysts have sounded the alarm over potential bankruptcy going forward. Heavy oil producers have struggled with profitability since the 2014-2015 price shocks, but Baytex looks to be well positioned to produce cash flow from light oil production.

Baytex is not the bargain it was in late December, but the stock still looks like a worthy buy and hold as oil rebounds in early 2019.

Encana (TSX:ECA)(NYSE:ECA)

Encana stock has climbed 4.9% over the past week. Shares have plunged 49% over the past three months. The stock has suffered an identical decline year over year.

Encana was flashing oversold signals throughout most of November and December 2018, as shares retreated from what were previously three-year highs in the late summer. It last had an RSI of 49, indicating that it is in neutral territory as of close on January 7. Shares have nearly halved from highs in August.

In early January, Encana completed the $480 million sale of its San Juan asset in New Mexico. Encana has said that this deal is in line with its strategy of maximizing the value of assets and moving forward with disciplined capital allocation. The company will use the proceeds of the transaction to support its $1.25 billion share-buyback program and power a 25% dividend increase in 2019.

Encana last paid out a dividend of $0.015 per share. This represents a modest 0.9% yield. However, Encana should be a target for those on the hunt for growth rather than income. The stock boasts the more enticing price of the two we have covered today, and shares should be supported by rising spot prices in the coming weeks.

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