Value Investors: These 3 Energy Stocks Are Ridiculously Cheap

Description

After years of being in the doghouse, the energy space is probably Canada's cheapest sector.

Shares of many leading energy companies are a reasonable value today, and would be ridiculously cheap if the price of crude oil rebounded just a bit more, say to the $65 or $70 per barrel range.

Simply put, investors don't believe the price of oil can ever hit the $70 range consistently, never mind returning to glory levels of $90 or $100 per barrel. There's just too much supply on the market, which is fueled by the fracking boom in the United States. The world's largest economy still imports about 10 million barrels of oil per day, but exports have increased from 4.7 million barrels per day in 2015 to 7.6 million barrels per day in the latter part of 2018.

With all this supply on the market, investors aren't bullish on the future of oil. Short of a ban on fracking, that is.

But if there's one thing I've learned about investing, it's the conventional wisdom is quite often wrong. Remember all the folks saying $100/barrel oil was here to stay because we were running out of supply? How did that thesis go?

If crude oil rebounds even in a minor way today, you'll be extremely happy you bought these ultra-cheap oil stocks. Let's take a closer look at three of the best choices.

Baytex Energy

Despite dealing with some balance sheet issues, **Baytex Energy Corp** (TSX:BTE)(NYSE:BTE) has done a nice job of weathering this storm. Management has focused on lower-cost production in Eagle Ford in Texas and East Duvernay in Alberta. 2019's production is expected to flirt with 100,000 barrels of oil per day, versus some 80,000 barrels per day in 2018.

Baytex expects to generate approximately $800 million in adjusted funds flow in 2019, assuming oil stays at $55 per barrel. If crude recovers to an average of $65 per barrel this year, funds flow could approach $1 billion. Capital expenditures are expected to be $600 million in 2019, which would leave the company with free cash flow of $400 million. Baytex has a current market cap of $1.3 billion, which means that the stock would trade at just over 3 times free cash flow in that scenario.

That kind of cash flow would allow the company to put a major dent in its debt, initiate a big buyback to gobble up undervalued shares, or perhaps look at reinstating the dividend.

Crescent Point Energy

Crescent Point Energy Corp (TSX:CPG)(NYSE:CPG) has dealt with a myriad of issues recently, including cash flow troubles, a bloated balance sheet, and activist investors advocating for change at the top. These folks got their wish in 2018, pushing former CEO Scott Saxberg out.

But the company has a lot going for it. Its Saskatchewan assets — which are located in the southwest and southeast corner of the province — are widely considered some of the best oil reserves in Canada. These locations feature light oil production, high netbacks, and easy access to pipelines. Management is also aggressively cutting costs and making sure capital expenditures are under control. And a recently announced share buyback should help boost the undervalued stock price.

Crescent Point shares trade at a mere 35% of book value. You won't find many stocks cheaper than that.

Cenovus Energy

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is another energy stock trading at a discount to its book value, with shares currently at about 80% of book.

Cenovus is one of Canada's largest energy producers, with close to 500,000 barrels per day of production, mostly focused on the oil sands. The company hasn't really recovered from its massive $17.7 billion acquisition, where it added both heavy and conventional oil assets in a deal analysts almost universally agreed the company paid too much.

The company still has some good things going for it, however. Its oil sands projects have some of the lowest operating costs in the region. The spread between heavy oil and light oil prices is expected to narrow. Cenovus owns two refineries, and these assets continue to churn out steady profits, too. And finally, the company has done a good job of paying back some of the debt taken on with the big acquisition. It's poised to do well when crude recovers.

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Author
nelsonpsmith