

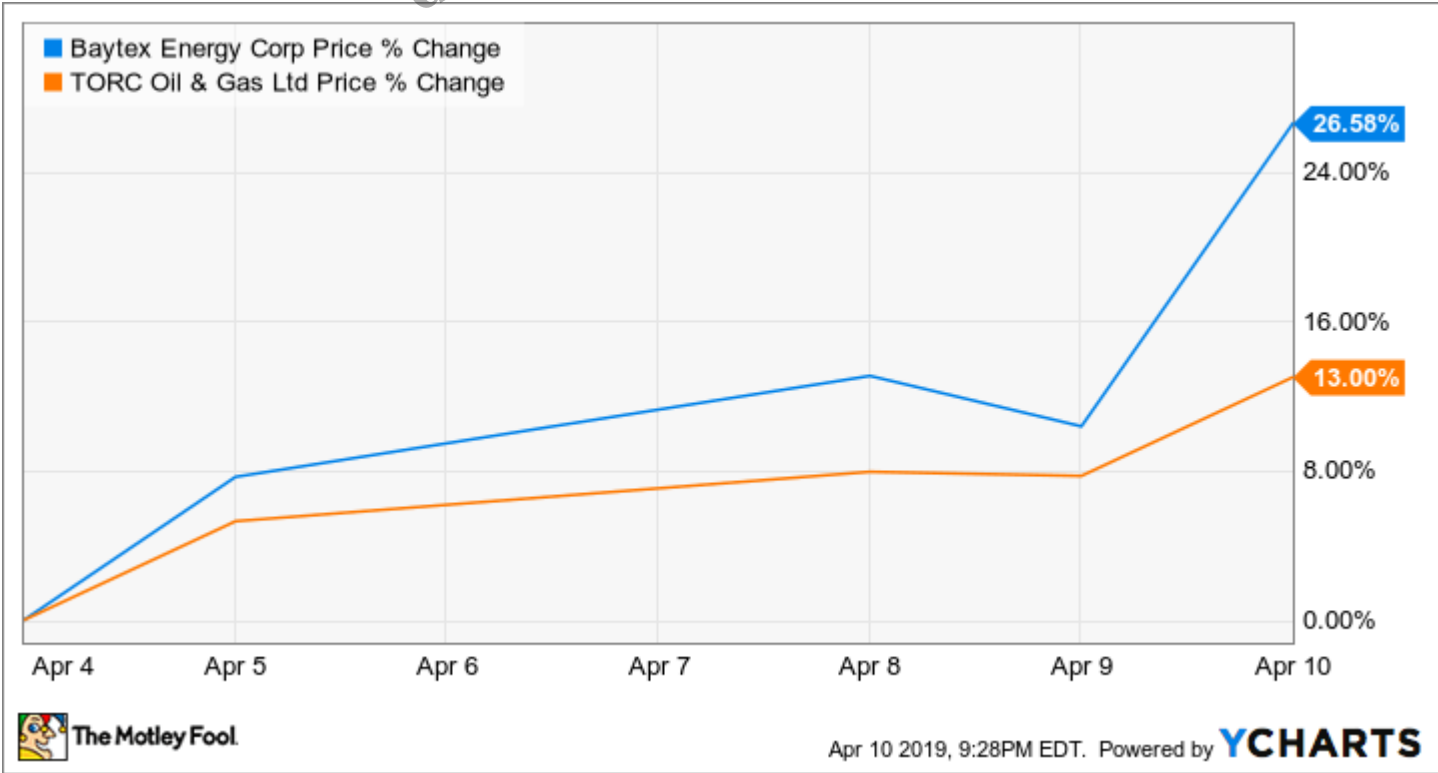


3 Reasons These Energy Stocks Are Surging

Description

Investors have probably caught wind of this by now. Yes, higher oil prices are finally upon us again. Specifically, the WTI and Brent oil prices are at their five-month highs at about US\$64 and US\$71 per barrel, respectively.

There are a few reasons that have ushered oil prices to head higher. As a result, energy stocks like **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) and **TORC Oil and Gas** (TSX:TOG) have surged 26% and 13%, respectively, since Thursday.



BTE data by YCharts. The rallies of the stocks of Baytex and TORC since Thursday.

The prospects of lower oil supply

The Libya civil war threatens oil supply and OPEC has made cuts to production. If you remember taking first-year economic classes in college or university, you'll remember the supply and demand graph. Lower supply with the same demand leads to higher prices.

Higher oil prices are what gets the stocks of oil-weighted producers surging.

Oil-weighted producers

Both Baytex and TORC are oil-weighted producers. This means higher oil prices have a bigger impact on their profitability. Specifically, about 80% and 88%, respectively, of Baytex and TORC's production mix is oil. Baytex is more leveraged than TORC, so the former experiences more upside when oil prices rise.



There are few bargains out there

There are few bargains left after the market recovered from the year-end correction in 2018. The Canadian stock market is now trading at its all-time high, and investors are hunting for value or for a trade.

That's where the energy sector comes into play. The sector has had the least participation in the market rally with many oil and gas producers still down in the dumps.

Despite rising +14% on Wednesday to \$2.81 per share, Baytex stock still trades at only about 1.8 times cash flow. That's very cheap! At a more normalized cash flow multiple, Baytex can trade at about \$4 per share. Currently, **Thomson Reuters** has a 12-month mean target of \$3.91 per share on Baytex, which represents 39% near-term upside potential.

TORC stock popped 5% on Wednesday to \$5.13 per share, but it still trades at only about 3.8 times cash flow. Similar to Baytex, TORC is very cheap! At a more normalized cash flow multiple, TORC can trade at about \$7 per share. Currently, Reuters has a 12-month mean target of \$7.34 per share on TORC, which represents 43% near-term upside potential.

Investor takeaway

Between Baytex and TORC, Baytex stock should experience stronger upward momentum in a rising oil price scenario because of its higher leverage. However, TORC is a more conservative [energy play](#) that offers a nice yield of about 5%. Investors should choose carefully the [energy stock](#) (if any) that fits their portfolio.

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