



## Better Buy: Crescent Point Energy (TSX:CPG) or Baytex Energy (TSX:BTE)?

### Description

Plenty of smart analysts agree: if you're looking for lucrative deep value opportunities in today's market, you don't need to look any further than Canada's energy sector. These stocks trade at ridiculously cheap valuations, even without the benefit of much higher crude prices.

Let's take a closer look at two of the more exciting opportunities for investors today, **Baytex Energy Corp** ([TSX:BTE](#))(NYSE:BTE) and **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG). Which one should you add to your portfolio?

### Asset comparison

Both Crescent Point and Baytex focus on light oil assets, reserves that are cheap to take out of the ground. Baytex, after it merged with Raging River, should produce a little under 100,000 barrels of oil per day, with approximately 70% of production consisting of light oil coming from the Eagle Ford formation in Texas and the Viking formation in Alberta. The rest of its production consists of heavy oil from Northern Alberta.

Crescent Point, meanwhile, is 100% focused on light oil. The majority of its production comes from three fields in Southern Saskatchewan, the Shaunavon, Viewfield, and Flat Lake areas. The company also gets production from the Uinta Basin in Utah and should add some production from the East Shale Duvernay in Alberta this year. Together, these assets should yield some 170,000 barrels of oil per day in 2019.

Overall, I quite like both of these companies and their focus on light oil, but Crescent Point gets the nod here. Baytex's heavy oil division is a negative in today's world.

### Balance sheet

There's no sugarcoating it. Both Baytex and Crescent Point would be in dire straits if oil dipped back below US\$50 per barrel and stayed there for a prolonged period. Each company's balance sheet just

couldn't handle the pressure.

Today both companies have what I'd consider fair balance sheets. Let's start with Baytex first. At the end of 2018 the company had \$6.4 billion in assets encumbered by \$3.2 billion in long-term liabilities. While this puts shares at an attractive 0.5 times book value, investors must remember that those liabilities are higher up the pecking order than common shares.

Crescent Point's balance sheet is about the same. The company has \$12.7 billion worth of assets versus \$6.1 billion in liabilities. Like Baytex, the value of shares reflects the risk of this debt; they also trade at a steep discount to book value.

## Upside potential

If you believe that crude oil can trade in the US\$90 to US\$100 per barrel range again, then both these stocks have some serious upside potential. Back in 2014, when crude last traded above US\$100 per barrel, both of these stocks were much higher than they are today.

Crescent Point's shares peaked at just over \$47 each on the TSX in June, 2014, which means that the \$5.49 per share stock could increase 800% and still not breach those highs. Baytex, meanwhile, has an even higher upside potential. Shares traded hands at nearly \$50 each on the TSX in mid-2014. This gives Baytex upside potential of some 1,600% given today's price of under \$3 per share.

There's no guarantee that these stocks increase that much, of course. And with great upside potential comes an equivalent amount of risk. But at the same time, both are trading at ridiculously cheap price-to-free cash flow ratios. Crescent Point shares trade at \$5.49 today. It could easily do \$1 per share in free cash flow this year, giving it a price-to-free cash flow yield approaching 20%.

Baytex is similarly cheap. If crude prices average US\$65 per barrel in 2019, the company could generate \$400 million in free cash flow. This translates into \$0.72 per share versus a share price of \$2.80 today, which gives the stock a free cash flow yield of above 25%.

## Which should you choose?

If I were forced to choose one over the other, Crescent Point would be my pick. I like the company's focus on light oil, and dissident shareholders are pushing the company in the right direction.

But if I were investing in the space, I'd split my capital between the two companies. Both offer similar upside potential if crude recovers and diversification minimizes the chance of a company-specific event impacting the investment in a negative way.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:VRN (Veren)

2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VRN (Veren Inc.)

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