3 Oil Drilling Stocks Under $20

Description

The Canadian oil sector has been a wild ride.

After oil prices collapsed in 2014, many energy stocks dropped by 50% or more. Most have still not fully recovered.

Lately, the future has been looking brighter.

After bottoming at roughly US$40 per barrel in 2014, oil prices have averaged around US$60 per barrel for nearly a year. There have been bumps along the way, but it looks like the market has finally rebalanced itself.

If you're looking for bargain oil stocks, here are three promising options.

Husky Energy Inc. (TSX:HSE)

Husky Energy stock lost more than 50% of its value following the 2014 oil collapse, but its business is fairly well-positioned for the future, particularly if oil prices remain depressed.

Revenues last year surpassed $16 billion, a near 50% rise compared to 2015 levels. Notably, Husky generated $1.1 billion in profits, its third year straight of positive net income.

As an integrated oil company, Husky both produces and refines oil. Because these activities are often counter-cyclical, Husky can maintain profitability if oil prices rise or fall. Breakeven costs are currently US$42 per barrel, and are set to fall annually to just US$37 per barrel in 2022.

Falling costs and a diversified revenue model make Husky a lower-risk way to play the upside in energy prices.

Crescent Point Energy Corp (TSX:CPG)(NYSE:CPG)

Fool contributor Andrew Walker recently named Crescent Point a top energy stock to buy as oil prices surge.

“Crescent Point owns attractive light-oil reserves and the new management team is working hard to shore up the balance sheet,” he wrote. “Rising margins will help make the job easier and Crescent Point could become a takeover target.”

The road has been difficult given the company lost more than $2 billion over the last four years, but there may be light at the end of the tunnel.

At current prices, management anticipates generating more than $600 million in excess cash flow this year, enough to pay down a big chunk of debt and even repurchase some shares.

The market is clearly skeptical given the share price remains near decade-long lows, but if management can execute on its vision this year, it’s hard to envision Crescent Point’s stock remaining this depressed.

Cenovus Energy Inc (TSX:CVE)(NYSE:CVE)

When oil prices exceeded US$100 per barrel, Cenovus stock was consistently above $30 per share. Following the oil price collapse of 2014, shares currently trade for just $13.

Management has signaled its intention to focus on free cash flow, but thus far, that promise has yet to be delivered on.

On a net income basis, Cenovus appears to be doing well. From 2015 through 2018, the company cumulatively earned more than $700 million. A deeper look at the books presents a more troubling picture, however.

Operating profits, which give you a better sense of a company’s underlying profitability, were actually negative in each of the last four years. Cumulatively, Cenovus posted $2 billion in operating losses. Instead, it’s relied on one-time items and accounting maneuvers to post positive net income numbers.

While some investors remain confident that free cash flow is just around the corner, I’m staying away from this messy situation.

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