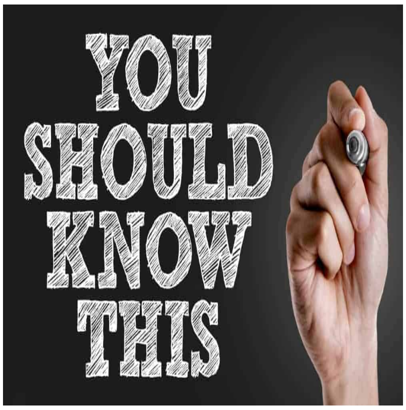

These 2 Dirt-Cheap Oil Stocks Under $5 Have Huge Upside Potential

Description

It was five years ago when the oil market started collapsing.

The price of crude oil dropped from a high of over US$100 per barrel all the way down to under US$30 per barrel before settling into today's range of between US$50 and US$65. As of writing, the North American crude oil benchmark price is US$56.60 per barrel.

Oil's big decline saw a lot of weaker producers have to exit the market, with these companies either forced to sell themselves or inevitably get crushed by their debt, leaving the sector much healthier and ensuring that only the strong remain.

Now all these companies are waiting for is crude to rocket higher. When that happens, investors who get in today will be looking at 100%… 200%… or even 300-500% gains. Yes, it is possible. But, with great upside potential comes a decent amount of risk. If crude doesn't recover, even the stronger names will face their own balance sheet issues.

Let's take a closer look at two top oil stocks, each with huge price appreciation potential.

Crescent Point

Crescent Point Energy Corp (TSX:CPG)(NYSE:CPG) was one of the darlings of the energy sector before 2014, as investors fell in love with the company's focus on low-cost light oil production, its insatiable growth plans, and its generous monthly dividend.

Oh what a difference a few years makes. Crescent Point has slashed its dividend three times, and its ability to raise money by issuing shares has been virtually eliminated. The company's hedging program, which was the envy of the sector when the carnage first started, hasn't been much help lately, and it's also had to deal with dissident shareholders who proclaimed the company was in need of a shake-up.

Still, it's not all bad news. Crescent Point owns some of the best assets in the sector, focusing on low-cost light oil in areas like Saskatchewan and Utah. Operating costs continue to go down, which has kept net backs steady despite a declining commodity price. And after years of bleeding cash, the company should generate approximately $400 million in free cash flow this year if crude averages US$55 per barrel.

The hard work has been done. Now all Crescent Point needs is for crude oil to recover.

Baytex

Baytex Energy Corp (TSX:BTE)(NYSE:BTE) shares are incredibly levered to the price of crude. This should translate into incredible upside if oil recovers, but the trade-off is that the company could be at risk of bankruptcy in a few years if it doesn't.

Baytex owns some nice assets in the Eagle Ford region of Texas — low-cost production that is solidly profitable even at US$50 per barrel. It also has recently expanded into the Viking oil field in Alberta and Saskatchewan, as well as maintaining its heavy oil production in Northern Alberta. The majority of its cash flow will come from Eagle Ford and Viking; heavy crude prices are just too low for much profit from those wells.

The problem is Baytex' balance sheet. The company has debt of $2.2 billion, a number that stays persistently high. The company simply can't generate enough free cash flow to make a sizeable dent in its borrowings. The good news is that there's no major debt repayments due until 2021; the bad news is that if oil doesn't recover, Baytex could have problems rolling that over.

Still, if you believe crude is heading higher, Baytex might be your play. Shares currently trade hands at $1.95 each. Just last summer they were flirting with $5. That's easily possible again with a little cooperation from the underlying commodity. And remember, Baytex shares peaked at more than $45 each during the market peak.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/07/05
Date Created
2019/07/05
Author
nelsonpsmith