



Investors: Double Your Money (or More!) With This Unloved Sector in 2020

Description

Given that most of the headlines surrounding the sector were negative in 2019, this may shock you, but I think the energy sector has turned the corner.

First of all, crude oil very quietly posted good performance last year, with the North American benchmark for the commodity rising some 35%. Crude ended the year at more than US\$60 per barrel after spending much of its time in the US\$45 to US\$55 per barrel range.

We're also starting to hear reports of the shale boom in the United States starting to falter as well. Various operators are reporting they're not getting as much oil as expected when they frack, with production ending up with a higher percentage of natural gas than anticipated.

Politics are also playing a role, with some leading Democratic presidential candidates — particularly Elizabeth Warren and Bernie Sanders — saying they will either ban fracking outright or put serious limitations on the practice.

Given all this, the energy sector could witness another solid year in 2020. And as many of the leading stocks haven't responded much to the current good news helping the sector, I expect these stocks will react strongly to any positive news eventually. It's just a matter of time.

Here are a couple ways you can position your portfolio for such a move, including one riskier and one safer way to play it.

Baytex Energy

Simply put, **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) is on a race against the clock. The company desperately needs energy prices to get stronger so it can refinance debt.

The year 2021 will prove to be a pivotal one as Baytex has more than \$1 billion in debt obligations coming due. The price of crude oil a year from now will much to determine just how willing lenders are to extend Baytex more credit.

The good news is the company should also generate some \$300 million in free cash flow in 2020, which will help pay down the debt.

Baytex is also a heavy fracking operator, especially in what has been its best-performing asset over the last few years, the Eagle Ford formation in Texas.

Eagle Ford has many advantages — such as low operating costs, solid netbacks, and good access to transportation options — but these pluses could be very quickly wiped out if all fracking is banned.

But if things go Baytex's way, the upside could be enormous. Shares currently trade hands for under \$2 each on the **TSX** at writing.

The stock was \$40 per share when things were much better, and even a fraction of that potential upside will translate into a [very good performance](#).

Imperial Oil

Baytex Energy is more like a lottery ticket than an investment. A solid fully-integrated operator like **Imperial Oil** ([TSX:IMO](#))(NYSE:IMO) is the much safer way to play a recovery in the energy market, although it'll come with less upside if you're right. You won't have to worry about shares flirting with [bankruptcy](#).

Imperial Oil shares are currently just a hair above their 52-week low as disappointing production numbers from its prominent oil sands operations sent shares reeling.

But these are still terrific long-term assets that should churn out predictable levels of production for decades to come. There's no risk of finding new oil to drill for here.

Then there are the downstream operations, which include four refineries and some 1,800 retail locations across Canada. These refineries generate steady profits no matter what the underlying price of crude oil does, which is easily enough to cover the dividend and ensure the balance sheet stays healthy. In fact, many pundits say Imperial Oil has the best balance sheet in the whole sector.

Imperial Oil has paid a dividend for more than 100 straight years and has raised its payout for 25 consecutive years. That's an impressive streak for any company, doubly so given all the volatility surrounding the energy sector.

The bottom line

Whether you choose the riskier route or the safer play, there should be plenty of upside potential for Canada's energy sector in 2020.

It looks like oil will finally recover, pushing up energy shares with it. Patient investors who have been

looking at the energy sector, now is your chance.

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1. Dividend Stocks
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3. TSX:IMO (Imperial Oil Limited)

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