Contrarian Investors: Will Baytex Energy (TSX:BTE) or Crescent Point Energy (TSX:CPG) Disappear in 2020?

Description

The stock prices of **Baytex Energy** (TSX:BTE)(NYSE:BTE) and **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) are mere fractions of their previous highs.

The 2020 oil crash could be the end of the road for many of the energy sector's walking wounded. Contrarian investors, however, might be tempted to take speculative positions in some energy stocks. In the event the global economy begins to recover in the second half of this year, oil prices and energy stocks might soar.

Let's take a look at the two former dividend darlings of the Canadian energy patch to see if they deserve to be on a contrarian buy list right now.

Baytex

Baytex Energy traded at $48 per share in the summer of 2014. The company completed a major acquisition in June that year, right at the top of the oil market. The price of WTI oil sat close to US$100 per barrel, when Baytex closed the US$2.8 billion deal for Aurora Oil and Gas. Management had high hopes for Aurora's Eagle Ford assets located in the Texas shale play. The Baytex board even raised the dividend by 9% to an annualized payout of $2.88 per share.

Oil plunged in the second half of 2014, forcing Baytex to cut the distribution. It eventually shelved the payout. Cash flow dried up, and Baytex continues to struggle with high debt.

At the time of writing, Baytex trades for $0.30 per share and has a market capitalization of less than $200 million. Net debt at the end of 2019 sat at $1.87 billion.

Baytex has nearly half of 2020 crude oil exposure hedged at US$58 per barrel. In early March, the company extended its $1.05 billion credit facilities to April, 2024. This gives Baytex some breathing room.

If oil musters a rebound in the next few months, Baytex could quickly jump back above $1 per share.

Crescent Point

Crescent Point Energy trades at $1.25 per share and has a market capitalization of less than $700 million. In June 2014, the stock topped $47 and paid out a monthly dividend of $0.23 per share, or $2.76 per year. The current annual distribution is a penny.

Crescent Point finished 2019 with net debt of $2.8 billion. The company has $2.5 billion in available credit, and roughly 65% of 2020 oil and gas production is hedged. Gains on the hedged positions are expected to be around $330 million, as of April 20th pricing.

Crescent Point cut 2020 capital spending by 35% in March and just trimmed it by an additional 10%, or $75 million. The company reduced production guidance by 15% due to the shut-in of higher-cost production and a shift in capital spending toward the end of the year.

Members of the executive team are taking 10-15% cuts in base salaries.

As with Baytex, the hedged production and credit lines should help Crescent Point ride out the current turbulence in the market. In the event oil prices bounce in the next few months, the stock could quickly double.

Should you buy Baytex or Crescent Point?

Contrarian investors willing to take on high risk in exchange for a shot at big short-term gains might want to take a small position in one of the stocks. If you are that type of investor, I would probably make Crescent Point the first choice among the two companies.

However, buy-and-hold investors should consider other opportunities in the market.

Trying to catch the bottom in these two stocks remains a dangerous bet. Each low reached in the past six years has been followed with another new low. There is no guarantee that trend is now broken.

Baytex and Crescent Point should survive 2020 based on the hedging positions, but we have no idea what will happen in the oil market through the end of the year.

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