Should You Buy Baytex Energy or Crescent Point Energy Stock?

Description

Baytex Energy (TSX:BTE)(NYSE:BTE) and **Crescent Point Energy** (TSX:CPG) (NYSE:CPG) enjoyed huge rallies in recent months and investors who missed the opportunity to buy the stocks last fall wonder which one might still be undervalued.

Baytex Energy

This stock traded for $48 in 2014 and paid an annualized dividend of $2.88 per share. Today the dividend is history and investors can buy the stock for $1.35.

While long-term holders of the shares probably won't see a return to the glory days, savvy investors who had the courage to buy when Baytex stock dipped below $0.40 per share last year are all smiles.

In June 2014, nobody thought Baytex would be a penny stock in 2021. In fact, the company thought it was on track to become a major player after completing the acquisition of Aurora Oil and Gas for $2.8 billion. Unfortunately, that proved to be the peak of the oil market.

Seven years later, the company remains handcuffed by heavy debt. Baytex finished 2020 with long-term debt of $1.8 billion. That's high for a business with a current market capitalization of $750 million. However, rising oil prices could enable the company to boost the capital program and drive production and cash flow above guidance.

This would make the market more comfortable with the company's ability to improve the balance sheet.

In the Q4 2020 earnings report Baytex estimated its net asset value, discounted at 10%, was about $2.78 per share. If the company is correct, the stock has 100% upside potential from the current price.

Production guidance for 2021 is 73,000 to 77,000 barrels of oil equivalent per day. Capital outlays are set at $225-275 million. Based on anticipated prices, Baytex hopes to generate more than $250 million in free cash flow this year and improve liquidity to at least $550 million.

Crescent Point

Crescent Point's stock price also fell off a cliff when oil prices tanked in 2014 and the shares continued to trend lower until the worst part of the 2020 market crash when the stock dipped below $1 per share. Today Crescent Point trades at $5 and investors hope more upside is on the way.

Crescent Point used to be an acquisition monster, gobbling up assets at a furious pace to boost reserves. In the past few years it sold off non-core holdings to reduce debt, but has started buying once again. For example, Crescent Point recently closed its $900 million purchase of assets in the Kaybob Duvernay region.

The rise in oil prices in the past few months gives Crescent Point extra flexibility with its cash flow. Crescent Point reduced net debt by $615 million in 2020. The company finished 2020 with net debt of $2.1 billion. At the time of writing, Crescent Point has a market capitalization of about $2.7 billion, so it's balance sheet is in reasonable shape.

Crescent Point used to pay an annualized dividend of $2.76 per share. The current annualize dividend is a penny per share.

The board thinks 2021 will be a strong year. Crescent Point intends to repurchase up to 5% of the outstanding stock through the first part of March 2022.

Is one a better buy?

Investors have to decide how comfortable they are with volatility in the oil market.

Baytex carries more risk but likely has more upside torque if oil prices surge and remain elevated over the next few years.

Investors who prefer to have a safer bet might want to make Crescent Point the first pick. The company is further along in its rebuilding efforts and has the balance sheet strength to ride out another downturn.

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