



## 2 Cheap Energy Stocks for Oil Bulls to Buy

### Description

The pullback in the price of oil is giving investors who missed the 2021 rally a chance to buy Canadian energy stocks at cheap prices. Let's take a look at two oil producers that appear undervalued right now.

### Baytex Energy

**Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) traded for \$48 per share in the summer of 2014, and BTE stock paid out an annualized dividend of \$2.88. At the bottom of the 2020 crash, the stock hit \$0.30 per share and currently trades for \$1.90. The dividend disappeared a long time ago, and long-term followers of the stock still can't believe how far Baytex fell after being a reliable dividend star for years before the 2014 crash.

A return to the glory days is unlikely, but Baytex offers a shot at decent upside for new investors who have a positive view on oil prices in the next few years. Baytex reported solid [Q2 2021](#) results. The company generated \$112 million in free cash flow in the quarter and reduced net debt by \$129 million.

Baytex finished the quarter with net debt of \$1.63 billion. That's still a bit high for a company with a [market capitalization](#) of roughly \$1 billion, but Baytex is generating enough excess cash at current oil prices to bring down the debt level significantly in the next couple of years.

Management expects to generate \$1 billion in free cash flow through 2025 at WTI oil of US\$55 per barrel. The number jumps to \$1.5 billion at average WTI pricing of US\$60 and \$2 billion at WTI oil of US\$65.

Baytex could have zero net debt in the next three years, assuming oil remains at or above its current price of US\$62 per barrel. Share buybacks and a restart of dividend payments could be on the way.

This stock can be volatile, so I wouldn't back up the truck. However, Baytex looks oversold right now and could deliver big gains in the coming months. The stock traded above \$2.50 per share in July.

## Suncor

Suncor sits near the other end of the scale when it comes to Canadian oil producers. The company's market capitalization of \$33 billion makes it one of Canada's largest energy companies.

Suncor's integrated business structure includes oil production, refining, and retail operations. The diversified nature of the revenue stream typically makes the stock less risky than the pure-play producers. The pandemic, however, hit the company across all three of its divisions and that led management to cut the distribution by 55% last year.

The dividend reduction surprised many loyal investors, and the stock has paid a dear price as a result of the reduction in the payout. Suncor is also dealing with some operational issues at one of its production facilities, but the situation should be resolved by the end of the year.

Suncor's share price is down to \$22.50 at the time of writing from the 2021 high above \$31. The price of oil gave up some gains in recent weeks but is still very profitable for Suncor at US\$60. Analysts widely expect oil to top US\$80 in 2022, so there could be some decent upside on the way. Suncor traded at \$44 per share before the pandemic.

Even at today's oil price, the stock appears undervalued. Commuters are expected to hit the highways in full force in early 2022, and air travel is already ramping up quickly. As a result, the downstream operations should rebound strongly next year.

Investors who buy the stock now can pick up a 3.75% dividend yield and have a shot at big capital gains in the next 12-18 months.

## The bottom line

Additional near-term downside could be on the way, but Baytex and Suncor look oversold at current prices. If you are an oil bull, these stocks deserve to be on your buy list.

### CATEGORY

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2. Investing

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#### **Date**

2025/09/10

#### **Date Created**

2021/08/23

#### **Author**

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