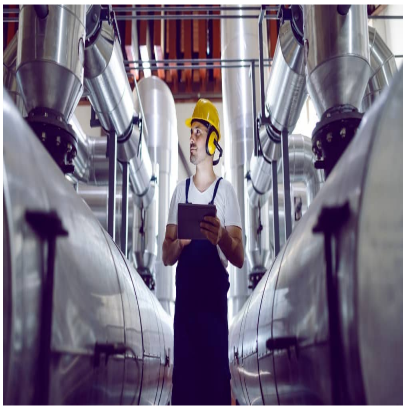

2 Cheap Energy Stocks to Buy in September

Description

The energy sector might be on the cusp of a new rally as we head into the final months of 2021. Owning the big names is safer, but investors who can handle some volatility might want to consider some of the former stars that remain out of favour.

Crescent Point Energy

Crescent Point Energy (TSX:CPG)(NYSE:CPG) just announced it will increase its annualized dividend from a penny per share to 12 cents. The news sent the stock soaring on a day that was already positive for the oil industry, as WTI hit US$71 per barrel, extending the latest rebound after a summer selloff.

Crescent Point's share price jumped 15% on the news. This is the kind of volatility the smaller companies in the energy sector can go through these days. If you catch it right, you can make some good money.

Crescent Point traded below $1 per share at the lowest point in 2020. The stock hit a 2021 closing high of $5.80 in June before dropping back to $3.80 in August. Since then, the shares have climbed back to around $5.

Oil bulls might want to start nibbling on the stock, even after the latest surge. The dividend hike is an indication that Crescent Point's board is confident revenue and cash flow are going to remain stable enough to support the new payout while also covering capital needs.

Crescent Point used to be one of the most aggressive buyers of assets back in the glory days when the stock traded from more than $45 per share. The company sold non-core assets in recent years to pay down debt but started doing strategic deals again in 2021. That trend could continue in 2022.

Baytex

Baytex Energy (TSX:BTE)(NYSE:BTE) is another fallen dividend star from the glory days of seven years ago, when WTI oil traded for US$100 per barrel.

The company made a game-changing acquisition right at the peak of the market in 2014. Unfortunately, oil started its downward trend right after the deal closed, and within six months, Baytex's share price went from $48 to about $15. Long-term followers of the stock know that things continued to go downhill, and Baytex bottomed out last year around $0.30 per share.

Since then, the stock has rebounded to around $2.60 per share. It is up 35% since August 20, and more gains could be on the way.

Baytex has done a good job of chipping away at its debt and is generating strong free cash flow at current oil prices. In fact, if WTI oil averages US$55 through 2025, Baytex expects to generate $1 billion in cumulative free cash flow. That doubles to $2 billion if WTI oil averages US$65, so you can see how quickly the situation improves when oil prices increase a small amount.

Baytex finished Q2 2021 with net debt of $1.6 billion. The company could effectively be debt free in the next few years. The market might not fully appreciate the potential upside in revenue and cash flow, even as the stock hits new 2021 highs.

The bottom line

Crescent Point and Baytex remain volatile, so you have to have the stomach to ride out the dips. However, oil bulls who see WTI holding or extending the current price gains over the next few years might want to consider taking positions in these stocks. There is certainly risk on oil pullbacks, but the upside potential might be attractive today in a broader equity market that appears overbought.

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