2 Incredibly Undervalued Energy Stocks to Buy Right Now

Description

The energy sector has once again come into focus for many investors who pushed these stocks aside. Indeed, bull markets in energy stocks tend to be spaced many years apart, with investors in this sector forced to be very patient with their bets. However, with crude prices surging now, energy stocks are once again in focus for many mainstream investors.

What was "out" is now "in," as a wide range of energy stocks take to new highs. However, given the fall in crude prices of late, some energy producers aren't performing as well as others. On a valuation basis, at least, some are trading at extremely attractive levels.

Here are two stocks I think are worth considering for those looking for undervalued energy stocks right now.

Undervalued energy stocks to buy: Parex Resources

Parex Resources (TSX:PXT) is a company I've been touting as a deep-value stock for quite a while. Indeed, despite moving considerably higher compared to pandemic lows, Parex is actually a company that's now trading in the red on a year-to-date basis.

This has resulted in a company trading at less than four times earnings with a dividend yield of 5.2%. I think this valuation is incredibly cheap for a number of reasons.

This Canada-based oil company actually produces oil exclusively in Colombia. Producing Brent crude, Parex has been able to receive much more favourable prices in the global market than many of its Canadian peers. Thus, from an earnings perspective, Parex stands out as a winner.

Parex carries a market capitalization of around $2.2 billion, and trades at only 1.2 times sales. If oil prices remain elevated at these levels for the next three years, the payback period for this stock (on a cash flow basis) would be around three years. That's impressive for any stock.

Indeed, finding an energy company as undervalued as Parex is difficult to do right now. Those looking for exposure to this sector would be wise to put this stock on the watch list right now.

Baytex Energy

Another high-beta play on the energy sector investors may want to consider right now is **Baytex Energy** (TSX:BTE).

I've been bearish on Baytex in the past in large part due to this company's debt structure. During previous periods of market turmoil, questions arose with respect to Baytex's ability to pay back its debt and remain solvent. However, at these higher prices, Baytex stock has actually outperformed many of its mid-cap peers.

Interestingly, Baytex trades at a valuation premium to Parex, with a market cap of $3.7 billion and a multiple of 4.2 times earnings. Still cheap, there's a reason why investors are choosing to focus on this name. Baytex is a company that develops natural gas and crude oil in Western Canada and the United States. With energy security concerns where they are right now, Baytex is often viewed as a leveraged play on the sector.

I think the thesis that Baytex could outperform, via balance sheet improvement and eventual capital redistribution to shareholders, makes sense. A riskier pick for sure, Baytex is on the watch list for many investors looking for undervalued energy stocks. Right now, I'd put Baytex in this group and will be watching this stock closely with respect to how its balance sheet improves over time. Should Baytex be able to institute a dividend and get its debt load down substantially, this could be a great pick for long-term investors at this valuation.

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2. TSX:PXT (PAREX RESOURCES INC)

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