



2 High-Leverage Options to Play Surging Energy Prices

Description

In August, the S&P 500 fell 4.2% as fears over an uncertain global economic outlook, aggressive Federal Reserve interest rate hikes and persistently high inflation swayed investors away from risk assets. Additionally, various energy stocks that had been on a tear through mid-2022 also sold off, as energy prices declined.

This continued selloff across most risk assets has continued. However, it's also true the energy stocks continue to vastly outperform the broader market. For those thinking that dynamic isn't likely to change soon, the search for energy-related companies with upside is on.

Here are two companies with relatively high leverage to energy prices worth considering.

Top ways to play rising energy prices: Baytex Energy

Headquartered in Calgary, **Baytex Energy** ([TSX:BTE](#)) is an oil and gas organization that produces, acquires, and develops natural gas and oil in the Western Canadian Sedimentary Basin and the U.S.

The company posted strong recent financial results, buoyed by higher energy prices. In fact, the company's free cash flow hit \$245 million, driven by considerable [growth](#) from the company's Clearwater assets. Given a valuation of roughly \$3.8 billion, Baytex thus trades at around 15 times free cash flow. That's a decent free cash flow yield for investors to consider.

As production increases over time (last quarter saw a 2% year-over-year increase), investors stand to benefit. Additionally, as this company continues to pay down debt, a strong balance sheet should bode well for a higher valuation. After all, this is a company that was struggling during the last down market in oil. A bull market rally moving forward would be nice for long-term investors to see.

Parex Resources

Another company that's relatively highly leveraged to energy prices is **Parex Resources** ([TSX:PXT](#)).

That said, this company isn't as exposed to Western Canadian Select (WCS) and West Texas Intermediate (WTI) prices as Baytex. That's because Parex is mostly a Colombian producer, with production trading in Brent crude pricing.

That's been the beneficial reason to own Parex relative to other Canadian energy companies for some time. In many ways, this thesis still holds true. And if Brent crude does see the kinds of premia it has in the past to WCS/WTI, Parex could be a sneaky way to play this divergence over time.

For Parex investors, another real benefit from holding this stock during previous turbulence is seeing the kind of earnings-per-share (EPS) growth the company's management team has been able to put up. Over the past three years, the company has increased its EPS by an average of 24%.

Granted, this kind of growth has come alongside surging oil prices. Should we be headed into a deep global recession, this pricing environment will change.

However, from a global perspective, Parex is certainly a company to consider. This energy producer's balance sheet is relatively strong, but higher oil prices do boost Parex's allure.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:PXT (PAREX RESOURCES INC)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. chrismacdonald
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date

2025/08/14

Date Created

2022/09/19

Author

chrismacdonald

default watermark

default watermark