Time to Dip a Toe Into Energy Stocks?

Description

How would I describe the TSX in 2018? Pot stocks were darlings, while energy stocks were left out in the cold. There are now many grossly undervalued energy stocks, despite being a mature sector and a backbone to Canadian economy. It is sensible to have some energy exposure in the portfolio.

There's lot of great Fool content on roughly 28 oil and gas Canadian stocks. The year ended with a bang as these stocks climbed 2.5% on average for the day. This small treat for shareholders does not sweeten the bitter taste of poor annual performance.

Baytex Energy (TSX:BTE)(NYSE:BTE) soared 6.2% on the last trading day, producing a 16% stock price rise over five days. This notable run was surpassed by only one other stock: **Frontera Energy** (TSX:FEC). Yet I'm hard pressed to find any oil and gas stock that returned a positive gain in the last three months. Although Frontera popped 7% in one day, it is still down 25% for the most recent quarter at the time of writing.

Fool contributor Kay Ng writes thought-provoking articles. To end 2018, Kay listed a set of top picks to own for an energy rally.

Yet no sensible voice is willing to stick their neck out in forecasting the future price for Canada's beleaguered Western Crude Select (WCS). Baytex's Q3 2018 report provides a breath of fresh air on this topic. The company states that as of Jan. 1, 2019, approximately 70% of crude oil commitments (to be shipped by rail) are West Texas Intermediate (WTI) based contracts with "no WCS pricing exposure." With aspects of Baytex business tied to WTI pricing, I can see why Kay is bullish.

Allow me to weigh in more heavily though. An asset manager once said: "don't mind being late to a [investing] party." This notion is apropos right now, not only as we bring in the new year, but also because it conveys a healthy cautionary tone. It is basically the opposite of FOMO (fear of missing out), instead it is "be happy when you are late," which doesn't make a good acronym!

There are reasons to remain cautious on Baytex:

- This could be a *false rally,* exactly like the one we saw a year ago. From Dec. 22, 2017, to Jan. 4,

2018, Baytex climbed by the same amount, 16%, only to give that back and more, ending the year down 38%.
- End-of-the-year trading is difficult to gauge. Remember the Boxing Day shopping frenzy from years gone by? It was hard to tell who was entering and who was exiting. The same could be said here. Is the price bounce is due to a) renewed bullish sentiment (new investors), b) shareholder sell-off to lock in tax losses, or c) both. It's gotta be both! But how much is due to exodus?
- Management is buying Baytex shares in the $2.50 range. This can be seen as positive since executives add shares when they feel the future is bright. John Zechner painted a different picture on *BNN* recently, however, with the following interesting points: Baytex is cast under the same energy sector cloud, and the exodus is a major hurdle. "Canadian money alone is not going to carry this stock to new heights." He argues foreign investment is a necessary catalyst.

And we're back to square one. Crude oil pricing and trade relations continue to be key. Can investors have confidence the stars will align to bolster Baytex stock in 2019? Karen Thomas argues there are lower-risk energy options. Holding cash on the sidelines, while watching Baytex — a sector front-runner — is also a fine strategy.

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