



Is Baytex Energy Corp. a Turnaround Opportunity at \$4?

Description

The oil price has fallen hard, taking **Baytex Energy Corp** ([TSX:BTE](#))(NYSE:BTE) with it. From its 2014 high of \$48, Baytex shares fell to \$4 on Thursday. That's a whopping 92% fall. Is it finally time to buy? First, let's see an overview of the company.

Business overview

Baytex Energy produces 84-86,000 barrels of oil equivalent per day. The business has a market cap of \$776.3 million and its S&P credit rating is BB. In the last 12 months, it has had a negative operating margin and earnings per share, yet it was able to generate over \$1 billion of operating cash flow. Subtracting its capital expenditure, it's left with \$371 million of free cash flow.

Recent dividend history

In December 2014 Baytex Energy slashed its monthly dividend 58% from 24 cents to 10 cents per share. In August of this year, it suspended its dividend and paid its last monthly dividend in September.

Dividend investors have been devastated. Its yield was 18% when the dividend elimination happened.

How is Baytex Energy repositioning itself?

Other than the dividend cut, which will save the company approximately \$212 million in the next year, Baytex Energy is also conducting a cost-reduction program. This program is anticipated to help the company save \$135 million. Because businesses cannot control commodity prices, cost cutting is an active way to tackle the low oil-price issue until it bounces back.

At the same time, Baytex Energy has been reducing debt. Its debt-to-equity ratio from last quarter reduced by 33% compared with 2014's ratio.

But the company really needs to work on generating positive earnings and improving its operating margins. In the last 12 months, its earnings per share was -\$2.4 while its operating margin was -28%.

Valuation

Baytex owns three wells. Eagle Ford is located in the United States, while Peace River and Lloydminster are in Canada. Their net value is \$5.92-6.61 per share based on a US\$1 to \$1.10-1.25 foreign exchange rate.

This indicates Baytex Energy's shares are priced at a margin of safety of 32-39%. Baytex Energy's price-to-book ratio (P/B) is 0.3. So, based on the book value, the shares have a 70% margin of safety. That said, other than its current P/B of 0.3, its P/B had oscillated between 1.5 and 5.7 in the last decade. So, it's quite volatile. In most years, its P/B was over 3.

In conclusion

There's no rush to jump into Baytex Energy as the oil-price outlook remains negative. Until there's an obvious rebound in oil, the share price of Baytex Energy isn't going anywhere. If oil falls further, Baytex Energy is going to go lower.

The company took action by cutting the dividend and reducing other costs to be more stable. However, Foolish investors are better off avoiding Baytex Energy until its earnings and operating margins improve. Instead, investors can look for better opportunities in the mid-cap energy arena.

CATEGORY

1. Energy Stocks
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1. TSX:BTE (Baytex Energy Corp.)

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