



## Should Contrarian Investors Buy Baytex Energy Corp.?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has been on a roller coaster ride for the past month, and investors are wondering if this is the sign that the stock has finally bottomed.

Let's take a look at the current situation to see if the company deserves to be one of your contrarian picks.

#### Big percentage rally off horrible lows

Baytex started the month of October at about \$4 per share and rallied above \$6.50 before returning to \$5 before the end of the month. A subsequent surge took the shares back toward the \$6.50 mark on November 3, and the market is deciding again whether or not it should take the stock higher.

The big move is great for investors who waded in around \$4 per share, but it is little consolation for the long-term shareholders who owned the stock this time last year when it sat at about \$30.

Can the stock regain its former glory?

Oil prices have firmed up a bit in the past month, but the outlook for the industry is still ugly, and the recent wave of layoffs by the majors suggests the insiders are not feeling overly optimistic about the way the market is headed in the near term.

That's why investors have to be careful chasing the troubled names. If WTI oil can rally back above \$50 and then gradually drift higher, the beaten-up names like Baytex have significant upside potential, but it wasn't that long ago that pundits were pondering a move down to \$20 per barrel.

#### Takeover speculation

The recent rebound in oil prices has put a floor under the stock, but the largest part of the move is probably attributed to rumours that Baytex could find itself the target of a takeover bid.

The idea makes sense given the company's significant resource holdings, especially in the popular

Eagle Ford shale play. As more deals get announced, money could flow into names like Baytex that have big debt issues combined with attractive assets.

Baytex has worked hard to stay solvent in the past year, and management can be credited for making early moves to shore up the balance sheet. Had the company not cut its dividend, renegotiated lending covenants, and raised capital as early as it did, the stock would be a lot lower than it is now.

In the August update the company said it expects to exit 2015 with senior debt of \$1.8 billion. At the time of writing the stock has a market capitalization of \$1.25 billion, so a suitor would have to cough up at least \$3 billion plus a premium to acquire the company. That's a drop in the bucket for Baytex's larger peers and a pretty good deal if oil prices are destined to move higher.

### **Will Baytex survive?**

Most of the long-term debt isn't due for several years, and the company is still within its senior debt-to-bank EBITDA allowances, so forced bankruptcy isn't an imminent concern. The company also expects to end 2015 with about \$975 million in undrawn credit facilities. Baytex has the room to ride out the rout for a few more quarters, but the writing is on the wall if prices don't improve.

### **Should you buy?**

Buying Baytex on takeover speculation is risky. The company is already at a fire-sale valuation and no suitor has publicly stepped up to the table. At some point, I think Baytex will be taken out, but it could be at a much lower price when it happens.

If you believe oil has bottomed, Baytex probably has more upside left, but another down leg in the crude market will probably hit the stock hard and big percentage moves are occurring on a daily basis.

At this point, I would look for safer opportunities.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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