Baytex Energy Corp. Is a Screaming Buy at Under $6

Description

A year ago, investors were clamouring to get into energy stocks, believing the downturn would only be a temporary thing.

It hasn't worked out so well. Although we did see a nice recovery in the price of crude during the spring, 2015 will still go down as a pretty bad time to invest in oil. With the exception of a few energy producers who have great balance sheets and exposure to refining assets, energy stocks have fallen anywhere from 25-50%.

After this year of carnage, many investors are throwing in the towel on energy. Most pundits are convinced it'll take years for both oil and natural gas to recover because of new supply sources coming from the Middle East, continued improvements in drilling technology, and inventory levels in North America that will stay stubbornly high.

But perhaps this is a great time to be getting into the energy sector. Assets are selling at fire-sale prices. And once crude recovers, some of the more beaten-up names could easily double, triple, or even more. We all know the woeful records of pundits who try to predict the price of oil. Nobody I follow was calling a top at $110 per barrel, that's for sure.

Here's why **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) just might be the best buy in a sector filled with compelling opportunities.

Good low-cost assets

Baytex has three key resource plays. Approximately half of its production comes from Eagle Ford in Texas, while the other half come from two heavy oil fields near Peace River and Lloydminster, both of which are in Alberta.

Even with crude hovering around $40, the economics of these fields aren't terrible. Eagle Ford has a breakeven point of approximately $35 per barrel, while Peace River and Lloydminster are approximately $45 per barrel. And these breakeven costs should continue to go down as the company cuts more fat from its budget.

The company plans to increase production from Eagle Ford, boosting it by almost 10,000 barrels per day. It projects to end 2015 with production of more than 85,000 barrels per day.

A solid balance sheet

One of the reasons why Baytex has seen such a sell-off in its shares is because of its debt load. The company owes nearly $1.8 billion compared to a market cap of just $1.3 billion.

But if you look under the hood, the debt situation isn't so bad. It sold $600 million worth of common shares in the spring to use towards paying down debt, and it still has nearly $1 billion in undrawn credit facilities that don't mature until 2019. Additionally, the company only has a senior debt-to-EBITDA ratio of approximately 3.0 times compared to the permitted ratio of 4.5 times.

Besides, Baytex is in no danger of going bankrupt for at least a few more years. The company has no major debt coming due until 2021, which gives it plenty of time to ride out this storm.

And from a book value perspective, the stock is extremely cheap. Baytex has a current book value of $13.04 per share, and remember, this is after writing off more than $650 million in assets over the past year.

Positive free cash flow

From a net earnings perspective, Baytex doesn't look like it's in good shape. The company has lost nearly $6 per share over the last four quarters.

The majority of those losses are from asset write-offs. Free cash flow over the first nine months of 2015 is actually positive, a testament to the company's low-cost assets and cost-cutting initiatives. Free cash flow is on pace to exceed $200 million this year.

When crude traded at above $100 per barrel, Baytex was a $50 stock. It currently trades at below $6. There's little chance of bankruptcy, and the company has assets that will start to look pretty good once oil recovers. I think long-term investors should start taking a very hard look at Baytex now, before crude recovers and it's too late.

CATEGORY

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

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