



## If You Believe Oil Has Bottomed, Buy Baytex Energy Corp.

### Description

The decline of oil was perhaps the biggest story in Canadian business in 2015. The narrative has switched somewhat in 2016 from oil's decline to oil's persistently low price.

The truth is, nobody knows when (or even if) oil will recover. Most of us assume it'll happen at some point, but it seems like every factor is pointing to prices staying low. Sure, rig counts are down substantially in North America, but production isn't really falling. The glut of supply shows no signs of slowing.

Many pundits are anticipating a new problem. North America has so much excess oil that storage facilities are filling up. Soon, if production doesn't head lower, we'll be out of storage space for this excess crude.

In this type of environment, it's hard to envision oil doing anything but heading lower. But maybe that's the wrong way of thinking. As the old expression goes, it's darkest right before the dawn. Perhaps today is the darkest hour for the crude market.

We've seen oil spike higher on good news many times during this huge downtrend; the rally just hasn't lasted. This indicates the crude market could turn on a dime. We just don't know when that will happen.

There are a few ways investors can bet on crude going higher. They can buy an ETF that covers the sector, something like the **iShares S&P TSX Capped Energy Index Fund** ([TSX:XEG](#)). This fund pays a nice 3.9% dividend and offers exposure to assets like pipelines. It also features diversification, which is a nice bonus for skittish investors who don't want to put their eggs in one basket.

Another way to bet on oil's eventual recovery is via a stock such as **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). Suncor's downstream assets help smooth out its earnings, it has a solid balance sheet, and it pays a nice 3.5% dividend that looks to be pretty safe.

But neither of those choices offers the upside as some of the so-called riskier names. These are small-to medium-sized producers with enough debt to scare off the average investor. They desperately need oil to head much higher at some point in the future. Their very survival depends on it.

The secret for investors is to buy the producers that can bide enough time to wait without creditors getting too excited. I believe **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) could be one of those companies.

### Why Baytex?

Upon first glance, Baytex's balance sheet doesn't look very pretty. It owes \$1.76 billion in debt as of September 30. That doesn't look bad versus the company's \$5.9 billion worth of assets, but keep in mind that many investors expect write-offs to drastically decrease the value of Baytex's fixed assets. Oil reserves just aren't worth as much today as they were two years ago.

The good news about Baytex's long-term debt is that none of it is due until 2021. The company does owe \$200 million on a credit facility, which matures in June 2019. So worst-case scenario, the company has about three and a half years to wait for crude to recover.

Baytex has a breakeven cost of approximately \$40 per barrel thanks to the acquisition of low-cost reserves in the Eagle Ford formation in Texas. These costs should continue to creep down as the rout continues. Breakeven costs for Eagle Ford are approximately \$35 per barrel, while costs for its production in Northern Alberta are closer to \$45.

Baytex, like many other producers, is advocating a "cash in, cash out" system. This means the company will only spend its available cash flow on new production. This ultimately means production will fall somewhat, but it is prudent fiscal management.

Each time oil has spiked during this downturn, Baytex shares have done very well. On January 20, 2016 shares traded at \$1.96 each on the Toronto Stock Exchange. By January 28, they reached \$3 each, good enough for a 50% return in just over a week. Crude was up about 30% during that time.

If crude recovers to \$50 per barrel, Baytex Energy could easily double from today's prices—perhaps even more. If you're looking for a company that should do very well in that sort of environment, I believe Baytex should be high on your list.

### CATEGORY

1. Energy Stocks
2. Investing

### POST TAG

1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)

3. TSX:SU (Suncor Energy Inc.)
4. TSX:XEG (iShares S&P/TSX Capped Energy Index ETF)

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