



Baytex Energy Corp.: Could it Rise Another 100%?

Description

Baytex Energy Corp.: ([TSX:BTE](#))(NYSE:BTE) was pretty much left for dead in January when it traded below \$2 per share, but the stock has more than doubled off those lows, and investors are wondering if the rally can continue.

Let's take a look at the current situation to see if Baytex deserves to be in your portfolio.

Debt situation

Baytex finished Q4 2015 with long-term debt of \$1.88 billion and net debt of \$2.05 billion. That's a heavy load for a company with a market capitalization of \$1 billion, but the situation isn't quite as bleak as it looks.

None of the long-term debt is due before 2021, and the company has about \$820 million available in undrawn credit facilities that don't mature until June 2019.

Many energy companies are working with their banks to relax covenants in their credit facilities with various measures of success. Baytex has done a good job of being proactive throughout the oil rout and managed to get its lending syndicate to adjust the terms twice in 2015.

This is important for investors because it means the banks see value in the underlying assets of the company.

What is Baytex worth?

In the Q4 2015 report, Baytex said its estimated net asset value discounted at 10% is \$11.05 per share. This is based on an estimated reserve value of \$4.3 billion plus extra value for undeveloped land, net of long-term debt, asset retirement obligations, and working capital.

At the time of writing, the stock is trading at \$4.40 per share, so there is another 150% upside potential right there if the valuation estimate is reasonable in the current environment.

Cost controls and production outlook

Management is doing a good job of adjusting expenses to ensure the company can survive the rout. The 2016 exploration and capital budget has been slashed by a further 33% and is expected to be \$225-265 million with 95% of the investment going toward the company's Eagle Ford assets.

Production guidance for 2016 is 68,000-72,000 barrels of oil equivalent per day (boe/d), down from the 84,648 boe/d produced in 2015, which means cash flow will remain under pressure if oil prices don't recover.

Should you buy Baytex?

If you believe oil prices have bottomed out, Baytex is a good way to play a recovery in the sector. The company is not at risk of going bust in the near term, and the upside potential remains significant on a continued oil rally. Remember, this was a \$48 stock less than 18 months ago.

At some point I think Baytex will be bought out, which would add an extra pop to the share price, especially if suitors start to line up to get their hands on the company's attractive properties.

While another 100% move is certainly possible, investors should wade in carefully just in case the latest oil rally is a head fake.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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