



## Will Baytex Energy Corp. Hit \$10 in 2016?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has already tripled off its January lows, and investors are wondering if the rally is just beginning.

Let's take a look at the beleaguered oil producer to see if it deserves to be a contrarian pick for your portfolio.

### Bad timing

Back in June 2014, Baytex closed its game-changing \$2.8 billion acquisition of Aurora Oil & Gas Limited. The deal gave Baytex a strong foothold in the highly coveted Eagle Ford shale play, and investors cheered the move as WTI traded at US\$100 per barrel.

Unfortunately, oil prices began to roll over right after the deal closed, and Baytex has been in survival mode ever since.

How bad has it been?

At the time of the Aurora closing, Baytex traded for about \$48 per share. It bottomed out just below \$1.60 per share in January.

### Dealing with debt

Baytex has done a good job of staying alive during the rout. Management slashed the dividend, raised cash through an equity issue, and successfully negotiated new terms with lenders while there was still an opportunity.

By the spring of 2015, things were looking good. Oil had bounced back to US\$60 per barrel, and the company actually delivered positive free cash flow for the second quarter.

Unfortunately, oil tanked again through the second half of last year and the stock fell with it to the point where investors left the company for dead.

Why?

Baytex ended 2015 with long-term debt of \$1.88 billion and a net debt position of \$2.05 billion. That's not good for a company that can't make money at current oil prices and only has a market capitalization of \$1.05 billion.

When oil fell below US\$30 per barrel, investors figured it was just a matter of time before the company would run out of cash.

### **New life?**

Oil has since staged a recovery, and Baytex's situation suddenly isn't as dire as the market thought, especially if the recent rally in the price of oil is the start of a longer-term recovery.

Baytex doesn't have to pay back any of its long-term debt before 2021. The company also has more than \$800 million available in undrawn credit facilities, and those don't mature until June 2019.

Management recently trimmed the 2016 capital program by another 33% to \$224-265 million with nearly all of the money going into the Eagle Ford properties.

If oil can move above US\$40 per barrel, Baytex should be able to meet its debt obligations and generate enough funds to cover the expenses needed to keep the oil flowing.

### **Could Baytex top \$10 per share?**

In the Q4 report Baytex estimated the net asset value of the company at \$11.05 per share based on an estimated reserve value of \$4.3 billion plus the value of the undeveloped land less long-term debt, working capital, and asset retirement obligations.

If the calculation is correct, there is significant value sitting in this name.

I think Baytex is a prime takeover candidate, and investors who pick up the stock now could see more upside from further gains in oil prices plus a possible premium on a buyout bid. As such, a run from the current price of \$5 per share up to \$10 is certainly possible.

However, the market remains volatile, and another downturn in oil would cut the knees out of the stock's recent run, so new investors have to be careful. I wouldn't back up the truck, but if you believe oil has bottomed, Baytex looks like a good way to play the rebound.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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aswalker

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