



## Baytex Energy Corp.: How High Could it Go?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has more than tripled off the January low, and investors are wondering how much upside potential is left in the stock.

Let's take a look at the former dividend darling to see if it deserves to be in your portfolio.

### An incredible crash

Back in June 2014, Baytex completed its \$2.8 billion purchase of Aurora Oil & Gas Limited to much fanfare. The deal vaulted Baytex into a strong position in the popular Eagle Ford shale play at a time when oil traded at US\$100 per barrel, and pundits were calling for even higher prices.

Baytex was so confident about the revenue outlook that it even raised the annualized dividend by 9% to \$2.88 per share.

As we all know, oil began its unprecedented slide shortly after the Aurora acquisition, and the large debt position taken on to pay for the deal put Baytex in trouble by the beginning of 2015.

Things improved by the spring of last year as management reduced costs, raised capital, slashed the dividend, and negotiated new terms with lenders. Oil even climbed back to US\$60 at one point, and Baytex looked like it was out of the woods.

Then the second shoe dropped.

Oil fell off a cliff through the back half of 2015, and Baytex's stock price followed it all the way down.

The company finished 2015 with long-term debt of \$1.88 billion and net debt of \$2.05 billion. That's a scary situation for a company with a market cap of just \$1 billion. As WTI oil dropped below US\$30 per barrel in the opening weeks of January, the market pretty much decided that Baytex was toast, sending the stock below \$1.60 per share. At the time of the Aurora deal, the stock was worth nearly \$48.

## The recent rally

Since hitting the recent lows, Baytex has staged an impressive rally, surging back above \$5 per share.

What's going on?

With oil back near US\$40 per barrel, Baytex is looking attractive again because that price is pretty close to the breakeven point for the company's production.

The debt load is still a concern, but none of the long-term debt is due before 2021, and the company has more than \$800 million in available credit facilities.

If oil manages to form a new base above US\$40 per barrel, contrarian investors are thinking there could be more upside in the stock.

## Takeover potential

Consolidation has already begun in the oil patch, and the trend is expected to continue.

**Bankers Petroleum** is being acquired for \$2.20 per share, which is nearly double the closing price of the stock before the deal was announced. Given the quality of Baytex's assets, a similar premium wouldn't be a surprise.

In fact, Baytex indicated in its Q4 2015 report that the net asset value of the business is about \$11.05 per share. Assuming the numbers are correct, that offers more than 100% upside from the current price.

If oil has bottomed out, big players with strong balance sheets are going to start shopping, and Baytex could become a target.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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