



Baytex Energy Corp.: Could This Stock Regain its Former Glory?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has tripled off the January lows, and investors are wondering if the move is the beginning of a much larger recovery.

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

Tough times

Investors who bought Baytex for \$2 per share in January are all smiles, but the move back to \$6 is little consolation for long-term holders of the stock.

Why?

Less than two years ago Baytex traded for \$48 per share and paid an annualized dividend of \$2.88. Today the dividend is gone, and Baytex remains one of the heaviest-hit stocks in the Canadian oil patch.

Most of the pain is attributed to the ill-timed acquisition of Aurora Oil & Gas back in June 2014. The \$2.8 billion deal closed just before oil prices started to roll over, and management has been in survival mode ever since.

To the company's credit, it moved quickly to avoid going bust. Baytex slashed the dividend early, cut capital expenditures, renegotiated terms with lenders, and raised funds as oil briefly rebounded in 2015.

In Q2 2015 the company actually delivered positive free cash flow and the stock traded north of \$20 per share.

Unfortunately, oil resumed its slide last summer and took the stock down with it. When WTI fell below US\$30 per barrel, investors threw in the towel, eventually driving Baytex below \$2 per share.

Treading water

The company took important steps during the first quarter to ensure it can ride out the rout. Baytex

reduced the 2016 capital budget by 33% to \$225-265 million and managed to renegotiate terms with its banking syndicate, again.

The company also reduced its credit facilities to US\$575 million, which could be a concern because it means Baytex has less financial flexibility to cover another downturn in oil prices.

Net debt remains at just under \$2 billion with none of the long-term notes due before 2021. At WTI of US\$40 per barrel, Baytex should be able to live within its cash flow.

Should you buy?

A return to the stock's former heights is not likely to happen, but investors could still pick up some solid gains.

How?

Baytex estimates its net asset value is at least \$11 per share based on oil prices that are below current levels, so there is still significant upside potential if the market decides to agree with the company's numbers.

At some point, I think a larger player will buy Baytex. If that happens, investors could see a nice premium on top of any further gains driven by higher oil prices.

If you are an oil bull and have a contrarian investing style, it might be worthwhile to add some Baytex to your portfolio.

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1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/20

Date Created

2016/05/11

Author

aswalker

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