



Baytex Energy Corp.: Should Contrarian Investors Buy This Stock?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has enjoyed a nice rally off the lows, and investors want to know if a much bigger move is in the cards.

Let's take a look at the company to see if it deserves to be a top contrarian pick.

A nasty slide

Back in June 2014 Baytex and its shareholders thought the future was a bright one. The company closed its game-changing acquisition of Aurora Oil & Gas and hiked the dividend to an annualized payout of \$2.88 per share. Oil prices were above US\$100 per barrel, and Baytex traded for \$48 per share.

The \$2.8 billion purchase gave Baytex a strong foothold in the promising Eagle Ford shale play, but it also loaded up the balance sheet with debt.

As oil began to slide through the back half of 2014, the market started to get nervous, and by the time December rolled around, the world had completely changed.

Baytex slashed capital spending, trimmed the dividend, and found itself with a stock price below \$20 per share.

To their credit, the management team did a good job of keeping the company afloat. Terms were renegotiated with lenders, and Baytex raised capital through a share sale when oil rallied in the first half of last year. At one point, it looked like the stock was in the clear, but crude prices hit the skids again in the second half of 2015.

When WTI oil dropped below US\$30 per barrel in January, investors pretty much threw in the towel, and Baytex traded for less than \$2 per share.

The recovery

In recent months, the stock has rallied on the back of a recovery in oil, and investors are wondering how much value still lies in the name.

Baytex has reduced costs to the point where it should be able to live within its cash flow if WTI oil remains above US\$40 per barrel. At the moment, the price of crude sits well above that mark.

Earlier this year the company released a report saying its net asset value is about \$11 per share, and that was based on price assumptions that are much more conservative than the current situation.

Baytex has about \$2 billion in debt with none of the long-term notes due before 2021.

Should you buy?

The stock currently trades for \$6.50 per share. If you believe the company's numbers, there should be plenty of upside value now that WTI oil is back to US\$50 per barrel.

I think a takeover bid is a strong possibility in the next two years, so oil bulls could see further gains on higher oil prices plus a potential bonus on news of a buyout offer.

If you have a bit of cash sitting on the sidelines, Baytex might be worth a contrarian shot.

CATEGORY

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TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/20

Date Created

2016/05/31

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