



Baytex Energy Corp.: Is the Party Over?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has enjoyed a stellar rally in 2016, but the stock is down more than 20% in recent weeks, and investors are wondering where the shares are headed next.

Let's take a look at the current situation to see if Baytex is a buy.

Volatile times

Energy stocks have caused a lot of investor heartburn over the past two years, and Baytex is no exception.

In June 2014 Baytex closed its game-changing acquisition of Aurora Oil & Gas for \$2.8 billion in a deal that gave the company a strong foothold in the coveted Eagle Ford shale play. Investors were all smiles as the stock traded for \$48 and paid an annualized dividend of \$2.88 per share.

Unfortunately, the Aurora deal wrapped up just before oil started to plunge, and six months later Baytex traded for about \$15.

Management has done a good job of keeping the business alive through the downturn. Capital expenditures are now focused on the lowest-cost assets, and new terms have been negotiated with lenders. At one point last year oil surged back to US\$60 per barrel and things started to look positive again, but oil extended the slide through the back half of the year.

Despite the company's efforts to stay afloat, the market pretty much assumed Baytex was headed for bankruptcy in January when WTI oil dropped below US\$30 per barrel.

As often happens, oil subsequently rallied and Baytex surged from below \$2 per share to as high as \$9 earlier this month.

What is a fair price for this stock?

Baytex believes it has a net asset value of about \$11 per share based on oil prices that are lower than

the current level. If that's the case, there is still some significant upside potential. At the time of writing, the stock is trading at \$6.70 per share.

Should you buy?

I think a larger player will eventually buy Baytex, and the stock definitely has some strong upside potential if oil continues to rally. For the moment though, I would wait for the pullback to run its course before stepping in to buy. Investors were caught out by oil's head fake last year, and there is a possibility the market could reverse course again in the coming months.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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