



Baytex Energy Corp.: Should You Buy This Stock Today?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is up 60% in 2016, but a pullback off the June highs has investors wondering if the rally has run its course.

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

Tough couple of years

Two years ago Baytex traded for \$48 per share and paid out a very juicy dividend. Today, the stock can be picked up for close to \$7 and the dividend no longer exists.

That's a pretty nasty slide, and investors who have held the stock for a number of years can be forgiven for not being overly excited about this year's rally.

Why so much pain?

The oil rout happened at the worst possible time for Baytex.

Back in June 2014 management wrapped up a \$2.8 billion deal to acquire assets in the hot Eagle Ford shale play. The deal was a game-changer, and Baytex even raised its dividend on expectations of strong revenue growth. Oil traded above US\$100 per barrel at the time, so the move made sense.

Unfortunately, crude prices plunged in the following months, and the company's bloated debt started to scare investors. By the time the bloodbath bottomed out in January of this year, Baytex was trading for less than \$2 per share.

Recovery in progress

Since then, WTI oil has rallied from below US\$30 per barrel to as high as US\$50, and investors have piled back into the stock as a result.

Management is doing a good job of navigating through the storm. Terms have been renegotiated with lenders and costs are down to the point where Baytex can live within its cash flow if WTI is at US\$40

per barrel or better.

Should you buy?

Everything depends on where you think oil is headed.

Baytex believes it is worth \$11 per share at WTI prices that are lower than the current level. If you are inclined to believe the company's math, the stock looks like a bargain right now.

A potential takeover is also worth considering. Baytex owns some very attractive properties, and I wouldn't be surprised to see one of the larger players take a run at the company while the market is still under pressure. If that happens, investors could see a nice pop on a takeover premium.

Having said that, the oil rally looks like it might be running out of steam, and a pullback is certainly possible in the coming months. As such, I wouldn't back up the truck to buy Baytex today, but contrarian investors might want to consider nibbling on further weakness in the stock.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/20

Date Created

2016/07/20

Author

aswalker

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