



Baytex Energy Corp.: Is This Stock a Smart Contrarian Pick?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is still up 40% in 2016, but the pullback over the past six weeks has investors wondering if the party might be over.

Let's take a look at the current situation to see if Baytex should be one of your contrarian bets.

Boom to bust

In the summer of 2014 Baytex and its investors were all smiles. The company had just closed its massive \$2.8 billion acquisition of Aurora Oil & Gas and raised the dividend by 9% on the expectation of stronger revenue coming from the new assets located in the coveted Eagle Ford shale play.

The jubilation was warranted. WTI oil traded near US\$100 per barrel, the stock was \$48 per share, and investors were pocketing an annualized payout of \$2.88.

Then the wheels fell off.

Oil started to slide, and by December 2014 Baytex was in survival mode. The company slashed the dividend, reduced capital expenditures, and renegotiated terms with lenders. At that point, the stock hit \$15 and everyone figured the worst might be over.

For a few months this seemed to be the case. WTI oil recovered through the spring of 2015, but the summer brought a new leg lower, and things went from bad to worse.

By January of this year investors who'd held on in the hopes of a recovery were screaming at their computer monitors.

The stock slid below \$2 per share and the juicy dividend was history.

The next step

The brave souls who stepped in at that point have enjoyed some nice gains. The stock rallied on the back of oil's surge through the first half of this year and hit \$8 per share in June.

Oil is back down to US\$43 after hitting US\$50, and investors are wondering if the subsequent pullback in the stock is a chance to buy or a signal to get out while there is still a chance.

It's a tough call to make.

Baytex has its cost structure down to the point where it can survive at WTI oil of US\$40 or better. Earlier this year the company said it thinks it is worth about \$11 per share at oil prices that are lower than the current level.

If the company is right, the \$6.30 you have to pay for the stock today looks like a bargain.

Should you buy?

Everything depends on where you think oil is headed. If you are an oil bull, there is a case to be made to hold this stock. The company owns an attractive portfolio of assets, and investors could get a nice takeover premium if one of the larger players decided to take a run at Baytex.

Having said that, I would be cautious right now. Oil rolled over last summer, and it looks like it could be repeating the performance again this year. If you'd bought Baytex at \$2, it might be a good idea to take some profits.

For those looking to start a new position, I would wait for confirmation that the latest pullback has run its course before hitting the buy button.

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1. TSX:BTE (Baytex Energy Corp.)

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