



## Baytex Energy Corp.: Is This Stock Oversold?

### Description

The price of oil has dropped 20% in the past two months and energy stocks have tagged along for the ride.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#)) (NYSE:BTE) to see if the sell-off could be an opportunity to buy.

### Two tough years

Baytex closed a game-changing deal in June 2014 when it purchased Aurora Oil & Gas for \$2.8 billion. The acquisition gave Baytex a foothold in the hot Eagle Ford shale play and led to a 9% increase in the dividend on expectations of higher revenue.

At the time, Baytex traded for \$48 per share and paid out an annualized dividend of \$2.88.

The optimism seemed warranted. WTI oil traded for US\$100 per barrel, and most market observers thought strong prices would continue.

As we all know, things haven't worked out that way.

Oil plunged through the back half of 2014, and by December of that year Baytex was trading for \$15 per share.

Management slashed the dividend, cut capital costs, and renegotiated terms with lenders in an effort to keep the company afloat as the debt taken on to pay for the Aurora purchase threatened to sink the company.

The rough ride continued through 2015, and by January of this year the situation really looked bad. Oil was down to US\$26 per barrel, and investors pretty much gave up on Baytex, driving the share price below \$2.

The subsequent rally through the spring made some money for those who had the guts to get in at the

low. Oil surged back to US\$50 and Baytex rallied above \$8 per share.

Now that oil is flirting with US\$40 again, Baytex is back down to \$6 per share and investors are wondering what to do.

## Risks

Baytex is still at the mercy of the oil market, and the numbers are concerning.

The company reported a Q2 2016 net loss of \$86.9 million. Cash flow from operating activities in the quarter came in at \$55 million as compared to \$138 million in Q2 2015.

Funds from operations (FFO) jumped 78% in Q2 compared with Q1 of this year to \$81.3 million, but for the first six months of 2016 FFO is down 60% compared with 2015.

Lower production, lower commodity prices, and lower gains on financial derivatives are all hitting the results.

WTI oil averaged US\$45.60 per barrel in Q2, which was much better than Q1, but the third quarter is starting out headed in the wrong direction.

Baytex is still carrying significant debt. The company finished Q2 with \$1.94 billion in net debt, down slightly from the \$2.05 billion it owed at the start of the year. Undrawn credit capacity was \$410 million as of the end of June.

## Is the stock oversold?

Oil looks like it wants to repeat last year's summer swoon, so I wouldn't buy any oil producer right now.

Baytex has to decrease its liabilities if it is going to survive the rout. If WTI oil is headed for another run US\$30 the company could quickly burn through its available credit capacity, and the likelihood of further reprieve from lenders is questionable.

The stock certainly has huge upside potential if oil is destined to rally back above \$60 per barrel, but I would be inclined to wait for the current pullback to run its course before committing new cash to Baytex.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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