



Baytex Energy Corp.: Will it Ever Hit \$40 Again?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) had a good run.

From November 2010 to October 2014, its stock traded above \$40, not once falling below that mark; that's a few days short of four years at such lofty heights. It's especially significant because prior to that it had never traded above \$36, and, in fact, spent most of its time since going public in December 2004 below \$20.

Now at \$5 and change, investors are asking themselves if the good, old days will ever return. Forget \$59.40, its all-time high. Right now, it's safe to say that most long-term shareholders would be happy with a double-digit share price, let alone \$40.

How could it get back to \$40? And can it?

Fool.ca contributor Matt DiLallo [believes](#) oil prices need to hit \$55 per barrel before good things can start to happen for Baytex, such as generating legitimate free cash flow—and not the kind produced by slashing capital expenditures below \$300 million, the level DiLallo says Baytex needs to spend in order to maintain production. Currently, it's spending about 75% of that amount.

The problem for Baytex shareholders is that its competitors are already making money from \$50 oil and could even generate profits below that level. At \$45, most of Baytex's oil production isn't profitable.

Baytex hit its all-time high on January 26, 2012. A barrel of West Texas Intermediate back then was going for about US\$100—double where it is today. In fiscal 2011, Baytex generated \$127 million in free cash flow from \$1.3 billion in revenue and \$445 million in capital expenditures. This past year it generated just \$30 million in free cash flow from \$1.1 billion in revenue and \$519 million in capital expenditures.

So, in 2011 it generated four times the free cash flow on lower capital expenditures. That, my friends, is completely a function of higher oil prices. It has spent more than \$400 million on oil production in the last five years with its best year (2014) in terms of free cash flow generation coming on \$790 million in capital expenditures. Baytex will be lucky to spend \$250 million in 2016. That's not a winning recipe for

its stock in the short term.

In 2011 Baytex's capitalization was \$6.7 billion, or 40 times free cash flow. Today, based on \$30 million in free cash flow in 2015 (there will likely be zero free cash in 2016), it's being valued at about 37 times free cash flow, or almost the identical multiple.

How does it get back to \$40? It can get there if oil prices double from where they sit today.

Can it get back to \$40? Well, it's not going to happen tomorrow, but it seems that 40 times free cash flow is the going rate for Baytex stock. Eventually, oil prices are going to test the \$100 mark. When that happens, Baytex's market cap will return to a multi-billion dollar valuation.

Am I buying?

Absolutely not, but then I'm not an oil geek. Those that are probably should.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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