



## Baytex Energy Corp.: Don't Miss the Rebound

### Description

It's no mystery why **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has been hit hard over the last few years as the stock lost over 90% of its value. The oil producer has taken a beating from the oil rout, and its large amount of debt is a concern. Despite all this, I believe the stock is undervalued considering the valuable assets it owns, and most the bad news is already baked in to the current stock price.

### The price-to-book is extremely cheap

Contrarian investors should have their eyes set on Baytex. The intermediate oil producer might rebound sharply, as oil continues its upward trend back to historic norms. The assets owned by Baytex can be scooped up at a huge discount to their intrinsic value. The current P/B is at a ridiculously cheap 0.5, which is much lower than its five-year historical average value of 3.8, which implies the stock is trading at a nearly 85% discount to what the assets are really worth.

Baytex acquired Aurora Oil and Gas Ltd. for \$1.6 billion, and this move will give Baytex a 15,000-barrels-per-day boost in crude oil production. This increased output will put Baytex at the forefront once oil starts rebounding in the next few years. I believe oil has found a floor at about \$50 and could start moving south of \$70 by the conclusion of 2017. When this does happen, Baytex could rally sharply, and by then it will already be too late to cash in on this huge value opportunity.

### What about the massive debt? Is it manageable?

There's no question that Baytex had a stressed balance sheet, and the company was on its knees when oil dropped into the \$20 range. The debt was around \$1.4 billion, which was over seven times more than the expected cash flow from an entire year of operations.

Baytex realized its debt was going to be a huge burden, so the management team decided to negotiate covenants with its lenders. The result gave Baytex some financial relief. The new covenants will not revert until the conclusion of 2017, but by then oil will have recovered by a significant amount such that the cash flow from operations will increase, and the debt will be manageable.

I do not believe that the debt is as big a problem as investors make it out to be, and it certainly shouldn't be the reason why the stock plummeted as much as it did.

### **Baytex is an investment that's not without risk**

If oil does happen to pull back again—perhaps back to the lows experienced earlier this year—then there's no question that Baytex will be in big trouble with its massive debt load and decrease in operating cash flows.

The business is not as diversified as some of the resilient energy companies like **Suncor Energy Inc.**, so the risk of major losses is not impossible from current levels. But if you're bullish on oil, then Baytex might be your golden ticket to outstanding returns over the next few years.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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