



Baytex Energy Corp.: Does This Stock Deserve to Be a Top Contrarian Pick?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has done a good job of staying alive through the oil rout.

Let's take a look at the current situation to see if the beaten-up oil producer should be one of your top picks right now.

Financial situation

Baytex just reported Q3 2016 results which show that management is staying disciplined in a difficult market.

The company produced 67,167 barrels of oil equivalent per day (boe/d). That's down from 70,031 boe/d in Q2 and 82,170 boe/d in Q3 2015.

The production drop is primarily due to reduced spending on drilling activities. Baytex had two to three rigs operating through the third quarter as compared to three in Q2 and six in Q1 2016.

Better oil prices in the quarter allowed the company to restore production at some shut-in heavy oil wells, leading to a 6% increase in production in Canada.

The company's Eagle Ford assets in the U.S. delivered lower output due to the sale of the company's operated assets in the play and a reduction in development.

Operating expenses were down 12% in the first nine months of this year compared with the same period in 2015, and the management team is working hard to deliver more improvements.

Funds from operations for the quarter came in at \$72.1 million, and Baytex spent \$39.6 million on exploration and development. The company is living within its cash flow, which is positive given the large debt position and reduced access to credit.

The company actually paid back some of its bank loans in the quarter. As of September 30, Baytex had used about CAD\$290 million of its US\$575 million in credit facilities. That's down from CAD\$347

million at the end of the second quarter.

Long-term notes remain at \$1.55 billion, so the company finished the quarter with long-term debt of about \$1.84 billion. At the time of writing, Baytex has a market capitalization of \$1.1 billion.

Guidance

Baytex expects full-year 2016 output to average 69,000-70,000 boe/d, which is a slight improvement from the reduction the company announced in the Q2 report.

The company has increased its rig count to four and expects to keep this activity steady through 2017.

Should you buy?

Baytex is keeping its head above water, but the company needs oil prices to move higher, so it can start reducing its long-term debt in a meaningful way and ramp up its development program.

If you think oil has bottomed and will make significant gains in 2017, Baytex is an attractive contrarian bet. However, there is a chance oil will reverse its 2016 gains, especially if OPEC fails to convince the market it is serious about restricting production.

A slide in oil back below US\$40 per barrel will be bad news for highly leveraged names like Baytex, and another extended oil slump could send the stock back to its 2016 low.

Oil still looks volatile, so I would stay on the sidelines until there is clear evidence a rally is underway.

CATEGORY

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1. TSX:BTE (Baytex Energy Corp.)

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