



Baytex Energy Corp.: Next Stop: \$10 Per Share!

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) acquires, develops, and exploits properties, producing crude oil and natural gas. Obviously, with the hard-hit oil sector, the stock has performed terribly in the last two years. Although the price of oil has not performed very well over the same time frame, it has done a little better. Given current oil prices, there is incredible value to be had for long-term investors.

In early 2015, the price of WTI crude oil was approximately US\$50 per barrel and proceeded to trade lower throughout the year. At a current price of just above US\$45 per barrel, the decline has been roughly 10% since early 2015. The company has not been as fortunate. At the beginning of 2015, shares traded near the \$20 mark and are now just above \$5. To make matters worse, what was a very healthy dividend of \$0.24 per month was first reduced to 0.10 per month in 2015 and subsequently eliminated altogether.

Shareholders have had a rough ride.

Along with the sell-off in oil in early 2016, shares hit a low of \$1.57 and subsequently rallied to above \$8 per share, now trading at approximately \$5.25; there is still room to run to \$10 per share. Currently, the book value of the company is estimated to be worth \$10.26 per share.

The concern for investors

As an investor, I am concerned about the share price. In order for shares to get to \$10, we will have to be patient for oil prices to rally. Now approaching the end of 2016, we have two years behind us with lower oil prices being the norm, and we've seen oil producers either delay or cancel many projects.

These cancellations bode well for long-term investors. As supply and demand in the oil industry can take a long time to match up (due to the forward contracts used for hedging purposes), more of those contracts have been winding down over time as they expire; they can either be renewed at much lower rates, or the buyers and sellers can shoulder the risk.

The reality is, the price of oil has only declined approximately 10% since early 2015, while the company has lost 75% of its value. The true value of the company is still there to be taken advantage of by patient investors willing to wait until oil rises in value, allowing the company to generate sufficient

cash flows for what could be positive earnings or even resume paying a dividend, no matter how small it may be

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1. Editor's Choice

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Author

ryangoldsman

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