



Can Baytex Energy Corp. Recover to \$40 in 2 Years?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) last touched \$40.02 on October 8, 2014 and has never been there since. It touched a horrific low of \$1.57 on January 20, 2016. While it took the corporation less than two years to shed 96.2% of its stock value, will investors witness an astronomical recovery back to \$40 in two years?

The plunge in global oil prices from the \$100/barrel mark since October 2014 to \$30/barrel lows by January 2016 is the main factor ravaging Baytex stock.

The stock touched lows when oil bottomed below \$30/barrel in January 2016. There was a huge debt overhang on the company's balance sheet, which is traceable back to a 2014 acquisition of Aurora Oil and Gas assets in the Eagle Ford play. Amid a declining oil price environment, heavy indebtedness, and persistent losses and falling cash flows, Baytex's default risks increased and the stock plummeted.

Case for a strong rebound

With the December 2016 OPEC deal likely to lead to an oil price rebound generally expected for 2017 through 2018, Baytex's fortunes look great.

Even a slow oil price recovery makes a big difference for Baytex. The company is poised to bring online several wells once the oil price hits economically viable levels, and that price could be between \$52 and \$55 a barrel. Some oil analysts are predicting a \$70/barrel price. Baytex just needs a \$55 oil to realize adequate cash flow from existing wells. If the market hits a \$60/barrel oil, Baytex will bring back online heavy oil wells in Canada, boosting revenues and cash flows significantly in 2018.

Baytex improved productive efficiencies in 2016, achieving an impressive breakeven price at Eagle Ford of \$30 WTI in Q3. There are strong capital efficiencies in Baytex's asset base after offloading non-core assets to pay bank debt. The company has recently concluded an equity financing deal raising \$115 million to finance a strategic acquisition at Peace River which could double the land area under its exploration.

Baytex increased its 2017 capex budget and approximately 70% of planned capex is to be directed to

Eagle Ford operations where costs continue to decrease. Improved productive efficiencies amid increasing oil prices could catapult Baytex to profitability and significantly increase stock price momentum as oil prices increase in the next two years.

However, so much depends on the premised oil price increases in the next two years for Baytex. Oil prices may not rise enough to sustain Baytex momentum by 2018. The OPEC agreement could be breached, and new oil wells coming online as prices improve may boost supplies and dampen price increases. Hedging practices could also limit Baytex profitability by limiting upside participation should prices go past \$59/barrel in 2017

From \$6.68 currently, it's still a long way back to \$40. Baytex may not hit the mark by December 2018. We may witness the stock ranging in the upper teens, however. Given another two years to 2020 and assuming steady \$70-80/barrel oil price under Ed LaFehr leadership, a more efficient Baytex can get to \$40 by 2020.

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