



Baytex Energy Corp. Is Ready for Takeoff

Description

After a terrible 2015 and 2016, shares of **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) have found a bottom. At a current price of approximately \$5.50, Baytex now offer investors excellent value given the book value per share of \$10.25. Currently, shares are trading at 54% of book value!

In 2015, shares were decimated along with every other oil company. While the price of oil declined, shareholders saw their fortunes evaporate along with it. But new investors buy shares based on the future and not based on the past. The company has been able to steady the ship and close the gap between losses and profits. Although Baytex has lost money in five of the past six quarters, the reality is, cash flows are improving.

In 2014, cash from operations (CFO) totaled \$1.082 billion, while the number was split in half in 2015 at \$549 million. Throughout 2016, CFO improved from \$64 from the first quarter to almost \$89 million in the third quarter of the year.

Management has been fighting a battle and will prevail. With assets of almost \$5 billion and long-term debt of less than \$2 billion, the company is well positioned. Interest costs for the most recent three quarters was almost \$73 million, approximately \$97 million annualized, while the cash and receivables totaled over \$100 million. Investors do not have to worry about liquidity or solvency for the next year.

As an oil exploration and development company, the price of oil will deeply impact the tide. Shares moved down in the past with the price of oil and did very little during 2016, just like the price of oil. Looking at the technical indicators of the company, the simple moving averages (SMAs) can tell investors a lot.

With most securities, there is a clear momentum up or down, and the 10-day, 50-day, and 200-day SMAs are trying to catch up or are crossing over each other. In the case of Baytex, the SMAs and the share price are almost intertwined and moving sideways, one on top of the other.

In the past month, shares have pulled back under all moving averages just a tad, allowing investors who believe in the long-term outlook of this company to purchase a dollars' worth of assets for approximately 54 cents.

Although the company went through a very rough period in the past few years, the reality is that prior to the collapse of oil, the company paid a healthy dividend and made the choice to pay down a significant amount of debt. In retrospect, it could have been more, but management will have the opportunity to take this action before resuming the dividend in the future.

It is important to understand the difference between the fundamental and technical indicators. Long-term investing is done based on the company and industry fundamentals, while the technical indicators may offer investors a view of the market sentiment towards the company. Effectively, the technical indicators may offer a better entry point than just jumping into the pool at any temperature.

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