



## Could Baytex Energy Corp. Double in 2017?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has been in the house of pain for almost five years as the stock lost over 90% of its value. In the company's 2017 guidance, the management team made it clear that Baytex can be cash flow positive in the mid-\$50 range. Oil prices fell into the abyss earlier last year, but they have since increased to the low \$50 range.

Many pundits believe oil prices will continue to climb higher this year and hit the \$60 level by the conclusion of 2017. This will see Baytex deliver a positive cash flow for the year, but is the stock still safe to buy, even with oil prices headed higher?

The management team at Baytex plans to spend between \$300 and \$350 million in 2017 to boost its production by up to 4%. With oil prices headed above \$55, we will most likely see the company increase its capital expenditures in order to grow. I believe oil prices are headed higher this year, but if they pull back, we could see the stock violently correct as well.

Baytex has a considerable amount of debt, but a majority of its major debt matures in 2021. If oil prices can stay above the \$55 level, then I believe the company will be able to gradually increase production thanks to positive free cash flow generation. In this case, Baytex will have no problems paying off the debt due in 2021. If oil prices stay below the \$55 level for the long run, then we could see production declines, and Baytex could be in a heap of trouble once 2021 arrives.

Baytex doesn't have the best operation efficiency in the oil patch. There's a lot of work to be done in this department because if another oil rout happens, we could see Baytex fall right back down to the \$2 level.

There's no question there's a ton of risk involved with an investment in Baytex right now. Until the company can lower its breakeven point, I would avoid Baytex as a long-term investment unless you believe oil prices will be higher for longer.

As a short- or medium-term investment, Baytex offers a ton of upside from current levels considering the direction oil prices are headed. The company will be able to deliver decent production growth with oil prices at \$55, but keep in mind the company is highly sensitive to the price of oil compared to its

peers.

The company is dirt cheap with a 0.6 price-to-book and a 1.5 price-to-sales multiple, both of which are a lot less than the company's five-year historical average values of 2.8 and 3.1, respectively. There's definitely a huge amount of upside from current levels if oil keeps climbing higher. The company could easily double over the next year or two if oil prices continue to rise at its current rate.

Are you an oil bull? Then buy Baytex. If you're not sure, then avoid the stock because there's going to be a ton of volatility over the next year.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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