Baytex Energy Corp. Is Back Below $5: Time to Buy?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) recently slipped back below the $5 mark on the TSX, and investors with a contrarian investing style are wondering if this is a good time to buy the stock.

Let's take a look at the current situation to see if Baytex should be in your portfolio.

Upside opportunities

Baytex was a $48 stock and paid an annualized dividend of $2.88 per share back in the summer of 2014.

Investors who have followed the name for some time see that as the potential upside point in the event of a strong rebound in oil prices.

As we have seen in the commodity space time and again, anything is possible, but as the oil market stands today, a return to US$100 per barrel is probably not in the cards, and hoping for Baytex to rally back above $40 is probably a stretch.

That said, a move to $10 is certainly feasible if the oil stars start to align.

Why?

Baytex has a debt issue, but the business has also managed to hold on to most of its assets through the downturn. This means there is substantial potential lying in the ground at its properties in the event that oil can muster another leg to the upside.

As we saw in the first half of last year, investors tend to pile into this sector when it looks like things are starting to improve. Baytex roared back from below $2 in January to above $8 by June.

The company said its estimated net asset value, discounted at 10%, at the start of 2016 was about $11 per share based on oil prices that were lower than the current level.

So, there is definitely an argument for betting on some upside from the current stock price.

Downside risks

Oil producers have been under some odd pressure recently.

What's up?

OPEC announced plans in late November to reduce output by 1.8 million barrels per day through June 2017. The group says it is hitting its targets, and oil has more or less held the gains it enjoyed in the wake of the announcement.

Baytex initially rallied 40% on the news, but it has now fallen back to where it traded before OPEC made the announcement, despite oil being close to 20% above its November low.

Why?

Rising production in the United States is a headwind for further upside in oil markets.

At the same time, Canadian oil companies are coming under pressure amid fears that President Trump could implement a border tax. Baytex has significant assets located in the U.S., but it is still caught up in the downdraft.

On top of that, Baytex is carrying significant debt, and while none of the notes are due in the immediate term, the load restricts the company's financial flexibility.

Baytex raised its capital plan for 2017 but only expects production to grow 3-4%.

OPEC appears to be meeting its reduction targets, but any news that members are cheating or missing their reduction goals could send oil back into a free fall, and if the price slips back below US$50 per barrel, Baytex and its peers could take a hit.

Should you buy?

Investors have to be oil bulls to own any of the producers right now. If you fall in that camp, Baytex might be an attractive pick at the current price.

However, it would be prudent to keep the position small, as the downside risk remains significant if oil reverses course for some reason in the coming months.

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