



Does Baytex Energy Corp. Have 100% Upside Potential?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) continues to struggle amid uncertain times in the global oil market.

Let's take a look at the current situation to see if this stock deserves to be a contrarian pick today.

Value play?

Baytex is one of the most popular names in the oil patch, despite its brutal plunge from the pre-crash highs.

How bad has it been?

Back in the summer of 2014, Baytex traded for about \$48 per share. The company had just made a game-changing acquisition in the coveted Eagle Ford play, and investors believed WTI oil would remain near the US\$100 mark.

As we all know, things haven't gone as planned, and, as it turned out, Baytex closed its major acquisition right near the top of the market.

Facing a huge debt load and falling prices, management acted as needed to keep the company alive, and some of the early moves to issue equity and slash the distribution probably saved the company.

In fact, it is a credit to the management team that Baytex has held on to most of its assets through the downturn.

And therein lies the opportunity.

Upside potential

Baytex estimates its net asset value, discounted at 10%, is about \$9 per share.

This assumes a reserve value of \$3.9 billion, plus some extra thrown in for undeveloped land, net of

long-term debt, working capital, and the asset-retirement obligations.

At the time of writing, Baytex trades for \$4.40 per share, so investors who believe the value calculations are correct can pick up the stock at a 50% discount.

Should you buy?

Baytex could easily hit \$9 if oil manages to drift higher through the end of the year and into 2018.

If you believe that's where the market is headed, the stock might be worth a contrarian shot.

The big risk, however, is another plunge by WTI oil back towards US\$40.

In that situation, highly leveraged names such as Baytex would likely take another hit, and it wouldn't be a surprise to see the stock price get cut in half from the current level if oil really tanks.

If you decide to buy, I would keep the position small, just in case oil rout 2.0 is on the horizon.

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