Baytex Energy Corp: A Little More Patience May Pay Investors Well

Description

Baytex Energy Corp (TSX:BTE)(NYSE:BTE) shares are currently trading at their 52 week low. The oil company's has fallen from stock market grace due to its high leverage in a low oil price environment, but there is a big chance its stock price could rebound.

Global fears of another oil price plunge are heavily weighing down the company's stock price. While the market's fears could be justified somehow, so is the upside potential for a US$60 per barrel average oil price at exit 2017.

Worse still, market tremors emanating from the Trump administration's Border Adjustment Tax policy (BAT) have contributed to a beating down of several local counters, Baytex included.

The bill's prospects of passing through all its stringent check points are becoming slim though, but will the market weaken its heavy battering force on the stock and be more forgiving on Baytex's heavy financial gearing going forward?

Probably.

The heavy discount to net asset value (NAV) on Baytex stock is a possible worst case scenario valuation that could be lifted should the oil price average above US$50 West Texas Intermediate (WTI) for the year, and the BAT scares go away.

While the company generated $77 million in funds from operations in the fourth quarter of 2016, the rate of cash flow growth at current oil prices is not adequate to meet 2021 debt repayments since the company requires around $300-350 million for capital expenditures per annum.

However, the weakening Canadian Dollar is advantageous for the company's operating costs, and break-even cash flows will allow Baytex to survive for now.

Most worrying is the company's looming debt repayments due in 2021 and 2022. While the obligations are still four years away, the outstanding debt is more than five times the company's cash flows, and there is currently not a clear path to repayment, besides a hope for a sustained oil price rally in 2017

There are some possible catalysts that could lift the stock from the deep trenches that it has found itself in today.

Firstly, there is the obvious oil price growth momentum hoped for in the coming months. With the increasing tensions between the United States and Russia due to the Syrian unrest, and the increasing scares from North Korea, on top of OPEC production cuts, oil may be poised for a slow but sustained price growth.

Aside from the obvious oil price hopes, an asset sale could be a catalyst for the stock and a way to bolster the balance sheet.

The company's management has, through the most difficult times in 2015, managed to maintain its composure and hold on to its priced assets. Though, a well-timed partial asset disposal could help do away with Baytex's debt curse.

From the recent sales activities in the Eagle Ford, is has become apparent that, if Baytex decides to divest about half its stake in this light oil play, it could repay its 2021 debt and be left with an intact Canadian asset base that is yet to be fully developed and can even sustain a $9 stock price.

Most noteworthy, Baytex management keeps reminding the market that its debt repayment is only due way into the future, so they probably feel they still have enough time to prepare for 2021. They are not in a rush to make a disposal and may deserve the chance to work things out.

While a good number of investors have given up on the stock, it may be wise for current shareholders to hold and wait for the Baytex rebound moment, which may not be that far away.

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Author
brianparadza