



Baytex Energy Corp.: At What Point Does This Stock Become Attractive?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is back below \$4 per share, and contrarian investors are wondering if the sell-off is overdone.

Let's take a look at the former dividend darling of the oil patch to see if it is an attractive bet right now.

Tough times

Baytex traded for \$48 per share in August 2014 and paid investors and annualized dividend of \$2.48.

Today, the stock can be picked up for less than \$4, and the dividend is long gone.

That's a nasty downturn in a short period of time, and it shows how difficult the oil rout has been for highly leveraged players in the oil market.

Why has it been so bad?

Baytex made a game-changing acquisition in the Eagle Ford play at the top of the market, and that decision has been a big reason for the extended slump. The company took on additional debt to pay for the purchase and is still carrying significant obligations.

As a result, the company has limited financial flexibility and really needs oil prices to move higher so it can generate enough cash flow to reduce the debt and expand its drilling operations.

Opportunity

Management has done a good job of keeping the company alive through the downturn. Baytex cut its dividend early and renegotiated terms with lenders at an important junction.

The company also raised capital when the market had its brief recovery in 2015.

As a result, Baytex has been able to keep most of its assets, and this is a big reason why contrarian investors are kicking the tires on the stock.

In an environment where oil prices are moving higher, Baytex has some serious upside potential. The company itself believes its net asset value is about \$9 per share based on an assumed reserve value of \$3.9 billion plus some extra for the undeveloped land, less obligations.

Operating costs have come down to the point where Baytex can live within its cash flow at current oil prices, or even lower, and the company expects to end the year with 3-4% production growth.

Should you buy?

Net debt at the end of 2016 was \$1.77 billion, which is a lot for a company that currently has a market capitalization of about \$900 million.

This puts the stock at risk of further downside if WTI oil prices are headed back to US\$40.

So, you have to be positive on oil to buy Baytex today. If you fall in that camp, the stock might be worth a contrarian shot at the current price.

Given the volatility we have seen in recent months, I would keep any new position small.

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