



## Baytex Energy Corp.: If You're Bullish on Oil, This Is the Stock for You

### Description

Of firms operating in the Canadian oil sands with market capitalizations of at least \$500 million, **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is the most leveraged, meaning that Baytex is the most sensitive to movements in the price of oil.

In today's oil and gas exploration and production market, Baytex is one of the firms considered to be a "marginal producer."

This means that if oil were to fall below \$55, Baytex would have a difficult time keeping the lights on. If sub-\$55 oil were to persist for an extended period, Baytex would likely not be able to continue on, and the company's assets would likely be acquired by a larger competitor for pennies on the dollar.

However, if oil prices were to continue on their rebound from \$26 per barrel in February of last year and reach a level of, say, \$75 per barrel, it would be a much different story for Baytex. The company would likely post a decent net profit — much different than 2016's net loss of \$2.29 per share.

Moreover, the company would, at that point, be cash flow positive with the potential to invest in future production increases, pay down debt balances, or even return cash to shareholders.

The problem is, or maybe more appropriately, the opportunity is, that the market can't seem to decide which outcome it will be for Baytex.

Right now, shares are priced at 0.6 times tangible book value, which implies that at least part of the market believes the company will be unable to earn the required return on its equity capital going forward.

In the company's investor presentation, management stated that at a price above \$55 per barrel of WTI crude, the company is generating positive cash flow. This is the make or break point for Baytex, to put it bluntly.

The spot price for WTI crude currently sits at \$50.67, but last week it broke above both the 50-day and 200-day moving averages, indicating the potential for a bullish breakout.

However, the oil futures market does not paint the same optimistic picture. Currently, the contract to deliver oil in 90 days is priced at \$51, indicating that the outlook among commodity traders is for oil to continue to trade between \$45 and \$55 per barrel.

### Should you buy?

BTE shares have rallied off their lows from the start of the month and are up 22.5% for May — another bullish indicator. The company also posted a profit of \$0.05 per share in Q1. This was the first quarter of positive earnings in over two years, indicating the company's fortunes may have already turned the corner.

An investment in Baytex is highly speculative on the direction of oil prices. Many who will feel they have an edge in this area are likely to "load up" on Baytex shares while they are cheap in hopes of doubling or even tripling their investment.

Yet other investors may prefer a company like **Shopify Inc.** (TSE:SHOP)([NYSE:SHOP](#)), which also offers the potential for outsized gains like Baytex, but it does not quite carry with it the same level of going-concern risk that the company may not be around in two or three years.

### CATEGORY

1. Energy Stocks
2. Investing

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