Baytex Energy Corp.: Next Stop, $5 or 50 Cents?

Description

Oil prices are extending their recent slide, and highly leveraged producers are taking a beating as a result.

Let's look at **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) to see if the sell-off might be an opportunity to start a contrarian position in the stock.

Difficult days

Baytex traded for more than $48 in the summer of 2014 and paid out an annualized dividend of $2.88 per share.

By the time WTI oil bottomed out below US$30 per share in early 2016, Baytex was down to $2, and the dividend was gone.

Investors who jumped in at that point had a chance to lock in some nice gains in the following months, as enthusiasm for an OPEC deal to cut global supplies drove oil back above US$55 per barrel by the end of last year.

Baytex rallied above $7 on two occasions in 2016 with the last surge topping out in the middle of December.

Since then, the stock has been on a downward trend and currently trades close to $3.50.

Positives

Management has actually done a good job of keeping the company alive through the downturn. Baytex renegotiated terms with lenders when there was still an appetite to do so, and the company raised cash when oil staged a mini-rally in the first half of 2015.

Costs have come down, the company is living within its cash flow, and 2017 exit production isexpected to be 5-6% higher than the previous year.

Baytex has avoided a major asset sale, which means the company is poised to do well if oil prices recover.

The company believes it has a net asset value of more than $10 per share.

Should you buy?

At the time of writing, WTI oil is back below US$45 per barrel, so stepping in at this point requires a strong belief that the oil pullback is overdone, and WTI will begin to recover in the near term.

If you are in that camp, starting a small a contrarian position in Baytex might be of interest, as any recovery in oil back above US$50 could quickly push the stock to $5 per share.

At this point, however, I would stay on the sidelines.

Why?

Some analysts see oil heading back to US$40 before it finally recovers and calls for a dip to US$30 are starting to emerge.

In that scenario, Baytex could be in trouble.

The company reported net debt of at the end of Q1 2017 of $1.85 billion. The market capitalization is now below $850 million, so the stock could come under heavy selling pressure if oil prices continue to fall.

If oil plunges below US$40 and investors start to panic, Baytex could retest the $2 mark.

I don’t see it going much lower than that, as I believe a larger player would swoop in and acquire the company, but anything is possible when the market gets irrational.

If you like the name and are positive on oil in the medium term, it might be best to at least wait for the current downturn to run its course.

Missing some potential initial upside is a safer play than trying to pick the bottom right now.

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