



If Oil Turns, Baytex Energy Corp. Could Be the Biggest Gainer!

Description

Last month, oil increased by more than 10%.

Clearly, the sell-off which happened in the weeks prior was a little overdone, at least in the short term. At the current price, which is now approaching the US\$50 mark, investors may be getting ready to pounce should the price of oil begin yet another bull run.

For investors willing to take the highest amount of risk in the hopes of achieving the highest level of reward, the path may not be as smooth as they would hope.

The reason that shares of oil-exploration companies have been hit so hard by the downturn over the past three years is because the lower price of oil has made it unfeasible to begin new projects, which in turn drives revenues higher. Given the projects already underway, there is very little left in the pipeline but the run-off value of the projects that are already underway. For investors considering the balance sheet as a source of value, it is an assumption that may or may not work out.

Let's take a look.

When an oil-exploration company acquires the rights to the production of any geographic area, the investment will then be listed on the balance sheet as an asset. Unfortunately, when the price of oil declines, the value of the investment is not always written down as fast as it should be. As the company owns the rights for many years, the expectation may still remain that the value will be realized over time. The challenge this represents for investors is how to value the tangible book value listed on the balance sheet. Although the value will be realized over time, no acquirer would actually pay the price that the assets are listed at.

At the present time, there are a number of these companies available. One of the best known is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), which is currently trading at a price near \$3.50 per share. As of the most recent quarterly balance sheet, the company had tangible book value of no less than \$8.43 per share. Clearly, investors are getting a steal on these shares if the price of oil ever returns to the price of more than US\$100 per barrel.

At the time oil traded in the triple digits, shares of Baytex Energy Corp. traded for close to \$50 per share. Investors have taken a huge loss as the company's success is highly dependent on the price per barrel of oil remaining high.

As always, the highest reward comes with the highest amount of risk. Invest wisely.

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1. TSX:BTE (Baytex Energy Corp.)

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