



## Contrarian Investors: Is it Time to Bet on Baytex Energy Corp.?

### Description

Contrarian investors are always searching for unloved stocks that might hold the potential for big upside gains.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to see if it deserves to be in your portfolio right now.

### Tough times

Baytex was a \$45 stock three years ago and paid an annualized dividend of \$2.88 per share. Today, the shares trade for close to \$3 and the dividend is gone.

It's no secret the oil rout has been tough on the entire energy sector, but Baytex has been hit particularly hard.

Why?

The company made a large acquisition right at the top of the oil market, and that deal saddled the company with significant debt. As prices fell, cash flow dried up, and Baytex quickly found itself in trouble.

The management team has done a good job of keeping the company alive. Baytex renegotiated terms with lenders, issued stock during the brief recovery in 2015, and has reduced costs to help adjust to lower prices.

Thanks to these efforts, Baytex has avoided a large asset sale, and that's why the stock is generating some contrarian interest.

### Upside potential?

Baytex calculated its year-end 2016 net asset value at \$9.05 per share, after a 10% discount. If the number is correct, investors who buy today are looking at some nice potential gains if oil prices recover.

The company is also doing a good job of living within its cash flow and actually delivered Q2 production that was 5% above Q1 and 12% higher than the fourth quarter of last year.

If oil rebounds in the coming months and through 2018, Baytex would be able to boost the capital plan, and use the added cash flow from the increased production to start paying off the debt load in a meaningful way.

### **Should you buy?**

The debt level remains the catch.

Baytex reported Q2 long-term debt of \$1.8 billion, which is a lot for a company that currently has a market capitalization of about \$730 million. None of the notes are due in the near term, but the debt is the reason the stock is so volatile.

If you are an oil bull and think a rally is in the cards in the coming months, it might be worthwhile to start a contrarian position in Baytex.

Otherwise, I would look for other opportunities.

### **CATEGORY**

1. Energy Stocks
2. Investing

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