



4 Reasons Baytex Energy Corp. Is Now a Screaming Buy

Description

Currently trading at well below book value, the market seems to be valuing **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) with a very negative lens.

And herein lies the opportunity.

Oil price estimates are too low

WTI crude oil is still closing in on \$60, having risen more than 10% since December 2016 and continuing to be supported by OPEC cuts, strong global demand, and geopolitical tension.

With oil trading at above \$50 for a good three months now and over \$55 for the last month, it is becoming increasingly likely that [oil companies](#), such as 80% oil-weighted Baytex, will be posting very strong, better-than-expected fourth-quarter 2017 results.

Debt load lightening

Baytex has been in the penalty box for a long time now — since the end of 2015, in fact, when its heavily indebted balance sheet threatened its survival as oil was in a free fall, plummeting from over \$100 in 2014 to under \$30.

During that time, Baytex shares fell almost 90%, as the company scrambled to stay afloat, restructuring its debt, as investors fled.

But today, when we look at Baytex, we can see a different story.

There's the price of oil, but there is also the fact that the company has been making strides on a couple of fronts. It has been slowly reducing its debt and has taken it down from \$2.1 billion to the current \$1.7 billion.

And the company's asset-disposition plan, which is expected to bring in much-needed proceeds from the sale of non-core assets, will go a long way to deleveraging the balance sheet and reduce the risk

of investing in these shares.

Strong cash flows

And the company has been performing better operationally, with management producing in the upper end of its guidance and reducing its 2017 operating cost guidance by 10%.

As a reminder, at \$50 per barrel, Baytex is free cash flow neutral; at \$55 per barrel, Baytex generates incremental free cash flow of \$75 million; and with oil at \$65 per barrel, Baytex generates incremental free cash flow of \$175 million.

Attractive valuation

With the company trading below book value and 3.5 times this year's expected cash flow, the company's [valuation has been bogged down](#) due to its heavy debt load.

But as oil continues to trade at current levels or higher, we will see an improvement in the balance sheet, thus driving the shares higher.

At the end of the day, with Baytex reducing costs, increasing efficiencies, and generating strong internal rates of return at \$55 oil, it would be fair to say that the company will emerge as a stronger and better one.

The company is improving its position every day and is increasingly generating shareholder value, and I think the market will soon become more comfortable with the name, sending the shares skyrocketing.

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1. TSX:BTE (Baytex Energy Corp.)

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