Don’t Miss This Big Opportunity to Buy Baytex Energy Corp. as Oil Hits $63

Description

To many investors’ surprise, oil is now trading at more than $63 — highs last seen in the spring of 2015, and 66% higher than the lows of January 2016.

So, while just a mere two months ago, we were wondering if oil would hit $60, we are now left wondering if it will hit $70, as OPEC and other big oil producers, including Russia, agreed to extend production cuts until the end of 2018, and geopolitical risk remains heightened.

Analyst oil price estimates are way lower than the spot price, and many stock valuations have not rallied to account for the increase in the oil price.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE), for example, is trading at pretty much the same level as it did in January 2016, despite the 66% run up in the price of oil. And **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is trading slightly lower.

While these companies have their own specific struggles and reasons for the lacklustre stock performance, a higher oil price solves many of these problems.

This signals a big opportunity, and if oil prices at least hold above $55 or $60, energy companies will be beating market expectations, and this will send their stocks higher.

Baytex, as we know, has been hit by the fact that the company was and is still carrying too much debt. While at sub-$30 oil, this is a huge problem — one that puts the company as a going concern at risk; at $60 oil, the story is totally different.

Baytex has big leverage to the oil price, and accordingly, the stock has big upside.

It has been slowly reducing its debt, taking it down from $2.1 billion to the current $1.7 billion.

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 oil at $65 per barrel means incremental free cash flow of $175 million.

With 90% of its production weighted toward oil, Crescent Point also represents a very good buy at these levels.

Production continues to increase and — notwithstanding the fact that investors are skeptical with regard to Crescent Point's history of raising money to aggressively acquire — the company is currently in good shape, and the stock has a dividend yield of 3.27% which is well covered by cash flow.

In summary, the energy markets have been fast moving — on the way down but also on the way back up.

Market expectations have not kept pace with the recovery, and investors therefore have a big opportunity to buy the stocks mentioned in this article.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VRN (Veren Inc.)

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Author
karenjennifer