



## Should You Bet on Baytex Energy Corp. or Other Energy Stocks?

### Description

As of writing, the WTI oil price sits at US\$63 and change per barrel. Energy stocks will certainly do better with ~US\$60 WTI oil than ~US\$40 oil. However, I don't think **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is the stock you should bet your hard-earned money on.

Sure, the stock looks cheap. It's trading at about half of its book value. However, the company still has lots of debt. Specifically, as of this month, it has \$1.7 billion of net debt, while it generated ~\$77 million of operating cash flow in the last reported quarter.

Baytex's financial leverage, measured by debt to cash flow, is roughly 5.5 times this year. So, the company is way more leveraged than the Canadian average of about 2.4 times.

In the last reported quarter, in Q3 2017, Baytex's weighted average interest rate on its credit facilities was 4% compared to 3.5% for Q3 2016. With higher interest rates, the free cash flow that Baytex generates will probably go to reducing its debt levels instead of to growing the business.

Also, investors shouldn't count on the company reinstating its dividend anytime soon, because of its high debt levels.



If you believe oil prices will stabilize or go higher from here, you'd be better off investing in other names. Here are [a couple of lower-risk energy stocks](#) you can consider.

**Vermilion Energy Inc.'s** ([TSX:VET](#))([NYSE:VET](#)) financial leverage is about two times, and its free cash flow yield is about 8%. At its recent quotation of \$49 per share, the stock is good for a yield of nearly 5.3%.

Vermilion Energy has a diversified portfolio of high netback businesses in Europe, North America, and Australia. Its production mix is about 32% European gas, 24% Canadian natural gas, 24% Brent oil, 14% WTI oil, and 6% natural gas liquids. And it enjoys premium pricing from Brent oil and European gas.

**Torc Oil And Gas Ltd.'s** ([TSX:TOG](#)) financial leverage is about two times, and its free cash flow yield is about 7.5%. At its recent quotation of \$7.26 per share, the stock is good for a yield of 3.3%.

Torc focuses on light-oil assets with sustainable growth. The Canadian Pension Plan Investment Board and insiders of the company own 25% and 4%, respectively, of Torc, which gives the company a strong vote of confidence.

### Investor takeaway

The analyst consensus from **Thomson Reuters** indicates there's 12-month upside of 13.8%, 8.6%, and 21.2%, respectively, for Baytex Energy, Vermilion Energy, and Torc. Including the returns from dividends, their near-term total returns potential would be 13.8%, 13.9%, and 24.5%.

Although Baytex and Vermilion Energy give similar near-term returns potential, Vermilion Energy is clearly the safer choice. However, Torc seems to be the top choice for the best risk-adjusted returns.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

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kayng

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