



## Contrarian Investors: Is Baytex Energy Corp. Attractive?

### Description

Contrarian investors are always searching for [troubled stocks](#) that might be on the verge of a recovery.

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

### Tough times

Back in the glory days of US\$100 oil, Baytex traded for \$48 per share and paid one of the energy sector's best dividends.

Today, investors can pick up the stock for less than \$3.50, and the dividend is long gone.

To say it has been a rough ride is an understatement, and while long-term investors shouldn't hold their breath for a return to the 2014 highs, contrarian investors might want to start kicking the tires.

Why?

Management has done a good job of keeping the company alive through the downturn. Baytex cut costs and negotiated new terms with lenders early in the rout. In addition, Baytex raised important capital through a stock issue when oil had a brief recovery in 2015.

As a result, the company avoided a fire sale of its assets to pay off debt, and that's where things get interesting.

### Attractive assets

Baytex has calculated its net asset value to be above \$9 per share at [oil](#) prices that are lower than current levels. If you think the company's numbers are correct, there could be a shot at some nice upside on a renewed oil rally.

Exit production for 2018 is expected to be 6% higher than last year, so things are moving in the right direction on that front. The recovery in oil prices through the end of last year has stalled a bit, but

additional upside could generate extra cash for a boost to the capital program in the coming months.

### **Debt situation**

Debt remains an issue, and that is why the stock continues to be volatile.

At the end of Q3 2017, Baytex had net debt of \$1.75 billion, which is a lot for a company with a current market capitalization of less than \$800 million.

Issuing new stock is not an option right now, and oil prices have not improved enough to generate adequate cash flow to make a meaningful dent in the debt position.

### **Should you buy?**

The situation is better today than it was two years ago, but downside risks remain, so I wouldn't bet the farm. However, if you are an oil bull and can handle the near-term volatility, Baytex might be worthy of a small contrarian position.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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