Why Shares of Baytex Energy Corp. Are Soaring Today

Description

In previous articles, I have discussed how **Baytex Energy Corp.'s** (TSX:BTE)(NYSE:BTE) stock is trading below 2016 levels, despite the fact that oil has increased approximately 60% since then, and how this disconnect represents an opportunity.

Well, today's better-than-expected fourth-quarter and year-end 2017 results should go a long way in rectifying this.

Baytex reported adjusted funds flow of $0.45 per share — an increase of 37%. This was driven by a 7% production increase compared to last year and higher prices. Baytex's realized prices for its heavy and light oil production increased more than 20%, driving these results and giving Baytex the cash flow it so desperately needed.

Let's recall that the company has been hit by the fact that it was and is still carrying too much debt. But, 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.

And we can see this concept in action.

For the year, adjusted funds flow increased 90% to $340 million due primarily to higher commodity prices. With this, the company was able to decrease its net debt by $39 million to $1.73 billion, which is still high but moving in the right direction.

At the height of the company's crisis, its debt position was in excess of $2 billion.

This should give investors more confidence that should result in a revaluation of the stock, as the risk reduces with each quarter of strong cash flow generation and improvements in its balance sheet.

But, of course, this whole thesis is predicated on the assumption that oil will stay strong. And with OPEC's discipline, the many supply risks, geopolitical tensions worldwide, and a demand picture that has held strong, this assumption is a good one.

Lastly, if investors didn't believe in the sustainability of oil prices, the fact that oil has been above $60 so far this year, and the fact that it has been above $50 since the fall of 2017, should go a long way in convincing them.

We continue to see energy companies beating expectations and delivering massive increases in their cash flows and bottom lines. The stocks have been slower to react, so there still exists a major opportunity to buy.

There are many examples of undervalued energy stocks soaring recently off strong results.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) bears mention here. It offers a long-life, low-decline portfolio and oil and gas assets that have given the company a predictable and reliable stream of cash flow with little reserve-replacement risk.

Along with the release of strong fourth-quarter results, the company increased its dividend by 22% — a testament to the confidence that management has in the fundamentals. The dividend yield now stands at 3.33%.

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