Baytex Energy Corp. Soars 20% This Month as Oil Holds Above $60

Description

Oil closed at $62.04 per barrel on Friday, up 3.2% for the day and staying above the all-important psychological threshold of $60, in a week that had us thinking that maybe that level wouldn't be held.

But at the end of the week, global trade war fears subsided, as clearer heads prevailed, and a strong jobs report brought optimism back to the market.

Against this backdrop, and as a result of improving company fundamentals, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) has soared 20% just this month, as the company released better-than-expected fourth-quarter and year-end 2017 results.

The company 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, of course.

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. And with oil continuing to hold above $60, the company is looking better and better.

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.

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.

Turning now to another attractive energy name, let's take a look at **Freehold Royalties Ltd.** (TSX:FRU).

While Freehold is only marginally up since the beginning of the month, it is another interesting way to play the continued strength in oil prices.

Being a royalty company, it pays a dividend of $0.60 per share for a dividend yield of 4.9% based on Friday’s closing price.

The company released its fourth-quarter results on Friday, and with this came a 5% dividend increase. This follows a 25% dividend increase in 2017 versus 2016 and signals the confidence that management has in the company’s outlook.

This is a company that I have been bullish on for a while now, as it is a great way to gain exposure to the Canadian energy sector. As a royalty company, with none of the operating costs associated with its production, it is a smart, defensive way to invest in the energy space.

Bottom line

If investors still don’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.

And with this, we continue to see energy companies beating expectations and delivering massive increases in their cash flows and bottom lines.

The stocks have been slow to react, so there still exists a major opportunity to buy here.

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