



Baytex Energy Corp. (TSX:BTE): Should This Oil Stock Be on Your Buy List?

Description

The Canadian energy sector is riddled with companies that trade at a fraction of their 2014 highs. With oil prices staging a recovery, investors are wondering which [energy stocks](#) might offer some attractive upside potential.

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

Rough ride

Baytex used to be a [dividend darling](#) in the oil patch, but an ill-timed acquisition right at the top of the market loaded the balance sheet with debt, setting the stage for one of the more dramatic reversals in the industry.

How bad?

Baytex paid a monthly dividend of \$0.24 and traded at \$43 per share four years ago. Today, the dividend is gone, and investors can pick up Baytex for \$4.30. In early 2016, the stock bottomed out around \$2.

New deal

Consolidation is beginning in the energy sector, and Baytex recently announced a deal that is indicative of what might be the beginning of a wave of mergers and buyouts. The company is merging with **Raging River Exploration Inc.** (TSX:RRX) in a move that will create a business with anticipated average annual production of about 100,000 barrels per day (bbls/d) beginning next year and a capital program of \$750-850 million that should boost production 5-10%.

The combined company will use the Baytex name. Raging River's CEO will be the chairman, and the current Baytex CEO will run the business. The deal is expected to close in August 2018.

In the news release, the two companies argue the new Baytex will have an attractive portfolio of

properties in the Viking, Peace River, Lloydminster, and East Duvernay plays in Canada, as well as the existing Baytex Eagle Ford assets in Texas.

Regarding oil price exposure, the new business will see 34% of production based on Western Canadian Select (WCS) prices, 30% of liquids production sold at West Texas Intermediate (WTI) pricing, 26% getting premium Louisiana Light Sweet (LLS) pricing, and the remainder comprised of Natural Gas Liquids (NGLs) priced relative to WTI.

The merger will strengthen Baytex's balance sheet, and the company won't have any long-term notes coming due before 2021. Based on forecasts, Baytex expects to fund the 2019 capital program through funds from operations.

Should you buy?

The stock prices of both companies dropped after the June 18th news release, so the market isn't overly excited about the move. Oil prices have also given back some gains in recent weeks, but the larger issue might be the fact that the company's assumptions are being made based on average WTI prices of US\$65 per barrel. WTI is currently trading at close to US\$70, which doesn't leave much room for a dip.

Combined, the two companies have a better chance at surviving another downturn, but I would probably look for other opportunities in the market today.

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