Is Baytex Energy Corp. (TSX:BTE) Stock a Buy Today?

Description

The recovery in the oil market is bringing renewed interest back into the energy sector, and investors are wondering if some of the beaten-up names might finally be attractive picks.

Let's take a look at **Baytex Energy** (TSX:BTE)(NYSE:BTE) to see if the stock deserves to be in your portfolio.

Rough ride

Baytex once enjoyed the status of being a top pick among dividend investors in the Canadian energy patch. The stock traded for more than $48 in the summer of 2014 and paid a monthly dividend of $0.24 per share. Baytex had just closed a major acquisition in Eagle-Ford play and hopes were high for a surge in revenue.

Unfortunately, oil prices fell off a cliff in the coming months, setting the stage for some tough times. Baytex saw its stock drop to $15 by December of that year, as management slashed the dividend in an effort to protect cash flow. A brief recovery in oil in 2015 gave Baytex an opportunity to raise cash through a share sale and management did a good job of renegotiating terms with lenders.

Oil then resumed its downward trend. By early 2016, Baytex traded near $2 per share.

Upside opportunity

WTI oil has staged an impressive recovery over the past 16 months, rising from US$43 per barrel to the current price of US$75 at writing. That bodes well for Baytex's U.S. operations in the Eagle-Ford play. The company managed to avoid a fire sale during the rout, which should be positive for the stock if oil continues to hold its gains.

In addition, Baytex merged with Raging River Exploration in August. The deal creates a larger company with assets in Canada that include positions in the Viking, Peace River, LLoydminster and East Duvernay plays, as well as the Eagle-Ford properties in Texas.

Management is targeting average daily 2019 production of 100,000 – 105,000 boe/d, up from the current level of 94,000. The company has $500 million in undrawn credit available to boost drilling activity if the market stays strong, and has 10 years of drilling inventory.

The company has even floated the idea that it could start to pay a dividend again in 2019.

Risks

Debt remains a concern and the WCS price differential is well off the US$23 per barrel assumption the company used for its guidance. At the time of writing, Western Canadian Select trades at a US$50 discount. Roughly 34% of the company's production is reliant on WCS prices.

Should you buy?

The weak WCS price is putting pressure on the stock. Baytex trades at $3.70 per share, which is only slightly higher than the price it fetched at this time last year.

The market didn't respond well to the Raging River merger, and while Baytex is arguably better positioned to grow, the lack of pipeline infrastructure in Canada is worth keeping in mind, as WCS might remain under pressure for some time.

If you are a long-term oil bull and think the WCS differential will improve next year, Baytex might be an interesting contrarian pick right now. That said, I would keep the position small.

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