Contrarian Investors: Is Baytex Energy Corp. (TSX:BTE) Stock a Buy Right Now?

Description

Contrarian investors are constantly searching for beaten-up stocks that might offer a shot at some nice gains in next 12-24 months.

The Canadian energy sector is one place bargain hunters are sifting through the carnage to look for deals, which makes sense, as there is no shortage of troubled names that were once market darlings and now trade at mere fractions of their former values.

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

Brutal chart

Baytex was once a top pick among Canadian dividend investors, but an ill-timed acquisition and the extended downturn in oil prices quickly turned the tables on the firm.

In June 2014, Baytex closed a major deal to acquire attractive assets in the Eagle Ford shale play in Texas. Management had big hopes for the assets, and even raised the dividend on the assumption that cash flow would get a nice boost and be adequate to cover higher dispositions and larger debt payments. Oil traded for close to US$100 per barrel at the time, so taking on more debt to cover a large part of the deal wasn't considered a problem.

Unfortunately, oil prices began their downturn shortly after the purchase closed, and by the end of 2014, Baytex was in survival mode. Management slashed the dividend and moved quickly to renegotiate terms with lenders.

The stock fell from $48 to $15.50 before staging a modest recovery in the first half of 2015 on the back of a brief recovery in oil, but the wheels fell off again in the second half of that year, and by early 2016, Baytex was down to $2 per share and the dividend had been shelved.

Since then, the stock has been quite volatile, surging or plunging on any positive or negative news in the oil market. Traders have had a field day with the stock, but investors continue to suffer.

At the time of writing, Baytex trades for $2.58 per share.

Debt

Baytex finished Q3 2018 with net debt of $2.1 billion. That’s a lot for a company with a current market capitalization of $1.4 billion.

The challenge for Baytex is that it has to spend money on drilling activity to boost production enough to drive higher cash flow to pay down the debt. Issuing new shares is not really an option right now and falling oil prices are cutting into margins.

No long-term notes are due before 2021, some there is time for an oil recovery, but the clock is ticking.

Oil outlook

Baytex can get WTI pricing for its Eagle Ford output. However, a big chunk of the Canadian production is sold at Western Canadian Select (WCS) pricing, which is currently at US$15.50 per barrel and a US$40 per barrel discount to WTI.

The company is increasing its crude-by-rail shipments from 8,500 barrels per day (bbl/d) in Q3 2018 to an estimated 11,000 bbl/d for 2019, which should help mitigate the impact of the WCS differential.

Should you buy?

WTI oil is down from US$76 per barrel in early October to the current price near US$56. The dip has come as a surprise given the new sanctions being placed on Iran and other supply issues in countries such as Venezuela. Momentum could reverse course next year, and if oil rallies back above US$70, Baytex could surge significantly.

That said, despite the positive efforts being made by the new management team to turn the business around, the big picture doesn’t look good right now,

Contrarian investors with an appetite for volatility might want to take a small position on the hopes of an oil rebound or a takeover premium, but I would probably look for other opportunities today.

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