



Is It Time to Buy Baytex Energy Corp. (TSX:BTE) Stock?

Description

The latest crash in oil prices is putting pressure on a number of Canadian energy companies that didn't get a chance to recover after the last downturn.

In some cases, the stocks are at or near new multi-year lows, and that has contrarian investors wondering if the sell-off has gone too far.

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

Four years of pain

Baytex closed a major acquisition in the summer of 2014. The deal added strategic shale assets in the coveted Eagle Ford play in Texas and was expected to be a game-changing deal for the company. Baytex even raised its dividend on the assumption revenue and cash flow would surge in the following months.

In the end, things didn't turn out as expected. Oil began to tumble through the end of 2014; by December, Baytex had dramatically reduced the [dividend](#) to preserve cash flow. Investors have had a rough time along the way. Baytex was a \$48 stock when it bought the Eagle Ford assets. Today, investors can pick it up for about \$2.40, which isn't too far off the \$2 low it hit in early 2016.

Risks

Baytex merged with Raging River Exploration in recent months in an effort to survive the downturn and be better positioned to grow when oil prices recover. The market didn't react positively to the deal, however, sending the shares lower after the announcement.

While the company's balance sheet improved as a result, debt is still a concern. Baytex finished Q3 2018 with net debt of \$2.1 billion. Unless oil prices can recover in a meaningful way, Baytex doesn't have the flexibility to boost capital spending enough to grow production and generate adequate cash flow to improve the balance sheet.

The company intends to reduce debt by \$200 million in 2019, assuming it generates forecasted cash flow.

Baytex will significantly increase its oil-by-rail volumes in 2019, averaging about 11,000 bbls/d, compared to 9,500 in Q3 2018. This will enable the company to get WTI pricing rather than the depressed Western Canadian Select (WCS) price on those volumes, but they represent a small part of the 100,000 bbls/d the company hopes to produce in 2019.

The differential between WTI and WCS has widened to US\$40 per barrel. At the time of writing, WCS sells for US\$11.50 per barrel.

Upside

The latest plunge in WTI oil from US\$76 per barrel to US\$50 appears overdone and we could see a strong rebound in 2019. New U.S. sanctions against Iran will impact global supply, and other OPEC players, including Saudi Arabia, are unlikely to ramp up output to fill the gap with prices at current levels.

Should you buy?

Any rebound in oil prices, or an improvement in the WCS differential could send Baytex higher. In addition, I wouldn't be surprised to see the stock become a takeover target. The Eagle Ford assets would be an attractive acquisition for a larger player in the market.

A small contrarian position might be worthwhile at this level, but investors should expect ongoing volatility, as things could get worse before the turnaround occurs.

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