



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

### Description

The steep drop in oil prices over the past two months is taking a heavy toll on the share prices of Canadian oil producers, and contrarian investors are wondering which companies might be interesting picks on the possibility of a rebound.

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

### Fallen angel

Baytex used to be a [dividend darling](#) in the Canadian energy sector. At its peak, the stock traded for \$48 per share and paid out an annualized dividend of \$2.88 per share. Today, investors can pick the stock up for about \$2, and the dividend no longer exists.

What happened?

Baytex closed its \$2.8 billion acquisition of Aurora Oil and Gas in June 2014. The deal gave Baytex a significant presence in the Eagle Ford shale play in Texas and was supposed to be a game changer for the company. In fact, management raised the dividend by 9% on the expected incremental cash flow.

Unfortunately, oil prices began to fall shortly after the deal closed, and by the middle of December that year, Baytex found itself in trouble. The stock fell to \$15 per share and management slashed the payout. A brief recovery in oil prices in 2015 gave Baytex an opportunity to raise cash and negotiate new terms with lenders. Those decisions probably saved the company and allowed Baytex to avoid selling its best assets.

The stock bottomed out around \$2 in early 2016 and has been volatile since then, moving as high as \$9 per share. The recent plunge back toward the multi-year low has contrarian investors kicking the tires again on the hopes of another rebound.

Debt remains a concern, and with WTI and WCS prices at current levels, Baytex doesn't have the flexibility to boost its capital plan to drive the added revenue it needs to shore up the balance sheet.

## Should you buy?

On the positive side, the company has attractive assets, and if oil rebounds, the stock could easily double off the current level.

If you are of the opinion that oil is near its bottom and will surge higher through 2019, Baytex might be an interesting contrarian bet today, but I would keep the position small. Volatility should be expected, and we could see more downside before the oil market finally reverses course.

At some point, I wouldn't be surprised to see a larger player swoop in to buy Baytex while it is under pressure, but a major premium shouldn't be expected, and betting on that scenario is risky right now.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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