



## Baytex Energy Corp. (TSX:BTE) Jumps 20%: Is it Finally Time to Buy the Stock?

### Description

A recovery in the energy patch in recent weeks has lifted the share prices of many of Canada's troubled oil and gas stocks.

Contrarian investors often search for [battered names](#) that could be on the cusp of a significant recovery, and buying the stocks as they enter the first innings of a sustainable rally is the prime objective.

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

### 2019 oil outlook

Oil prices have recovered some lost ground in the first two months of 2019, and investors are trying to decide if the recovery has legs.

In Canada, Alberta's decision to restrict production has served its purpose to close the price differential between West Texas Intermediate (WTI) and Western Canadian Select (WCS). At the time of writing, WTI trades at US\$57 per barrel compared to the December low near US\$43. The price for WCS has rebounded to US\$45 from its December low near US\$11.

Baytex has production that is exposed to both WTI and WCS pricing, so the Q1 results should reflect the improvement.

OPEC says it is sticking to its plan to curb supply in an effort to drive higher oil prices. American sanctions against Iran could provide ongoing price support, and the deteriorating situation in Venezuela, a major oil producer, is also worth considering.

Pundits have wide-ranging predictions for the market through the end of the year, with some analysts even predicting a WTI spike above US\$70 at some point in the coming months.

## Baytex situation

Baytex plans to spend \$550-650 million in 2019. This should generate average annual production of 93,000-97,000 barrels of oil equivalent per day (boe/d). Assuming an average WTI price of US\$52 per barrel, the company says funds flow should cover the capital program.

Long-term production growth is targeted at 5-10% per year.

The big question for investors is the large debt position. Baytex finished Q3 2018 with net debt of \$2.1 billion, which is a lot for a company that has a current market capitalization of \$1.35 billion.

The merger with Raging River Exploration helped the situation, but Baytex has to start making a material impact on the debt to enable it to grow. The company said any extra cash flow will be allocated to debt payments this year. Based on its assumptions and hedging positions, a US\$1 change in the average WTI price would have a \$24 million cash flow impact.

## Should you buy?

Investors who are of the opinion that WTI and WCS prices are headed higher through the end of 2019 and beyond might want to start a small contrarian position in the stock. The share price can be volatile, as we have seen in recent years, and a significant surge is certainly possible on a spike in oil prices.

That said, all of the previous rallies since the meltdown began in 2014 have proven to be head fakes, so caution is warranted.

If you think Baytex is too risky, other stocks might be worth considering right now.

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