



Baytex Energy Corp. (TSX:BTE): Is the Stock Price Attractive Today?

Description

[Oil prices](#) have been strong again recently, with WTI oil trading just shy of \$60 at the time of writing, up 6.5 % in the last month and 30% in the last three months.

Similarly, the Western Canadian Select price has also rallied nicely, which is good to see for all of us Canadian energy investors; it is up 8.8% in the last month and 58% in the last three months.

This price action has [energy stocks](#) sitting pretty and possibly on the cusp of a break-out.

When things turn in the Canadian energy sector, they will probably turn fast. When sentiment turns, it will turn even faster.

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) has finally positioned itself as a viable option to gain exposure to this, albeit a higher-risk one. Here are the key investment attributes that make Baytex's stock price a good contrarian bet for a higher-risk/higher-return proposition today.

Oil and liquids exposure

With the recent strength in oil prices, it stands to reason that energy companies that have more exposure to oil and liquids production are attractive investments.

Baytex's production is 83% weighted to oil and liquids, and this, coupled with outstanding operational results, has made Baytex stock an attractive option for oil and gas exposure.

Most recent results, the fourth quarter of 2018, showed a 4% increase in production, a 23% increase in proven reserves growth, and, while costs per barrel of oil increased approximately 1%, a 15.5% increase in price realizations.

Increasingly diversified, quality assets

Baytex's acquisition of Raging River has diversified the company's production base, giving it quality

light oil assets and land in the prolific Duvernay area in Alberta.

Add this to Baytex's existing legacy Eagle Ford and Canadian heavy oil properties, and we can see the diversification that has lowered the risk profile of the company and the stock.

Balance sheet improving

The Raging River acquisition has already strengthened Baytex's balance sheet, bringing its debt-to-capital ratio to 42%, down from 47% last year.

Future cash flows will further reduce the leverage, driving Baytex stock higher.

2019 free cash flow is expected to come in between \$100 million and \$200 million, which is a big accomplishment after years of negative free cash flows draining the company's balance sheet.

Final thoughts

Baytex stock has been a disaster in the last few years and is trading at a mere fraction of its stock price of over \$40 just four years ago, as the company has struggled with high debt levels, rising costs, and declining production.

But the tide is turning, and Baytex is emerging as an increasingly attractive stock to play a strengthening energy sector. Its stock price discount is becoming less and less warranted, and we can expect this to continue as cash flows come in and debt is reduced.

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Author

karenjennifer

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