Could Baytex Energy Corp. (TSX:BTE) Stock Double This Year?

Description

Contrarian investors are constantly searching for troubled oil stocks that might offer a shot at some significant gains on a turnaround in the company's operations or an improvement in the broader energy sector.

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

Ugly chart

A quick look at the performance of Baytex over the past five years would likely scare off most tire kickers. The stock traded for more than $48 per share in the summer of 2014 and was widely held by dividend investors who flocked to the stock for its rising payouts and above-average yield.

The company closed a major acquisition in June of that year, buying Aurora Oil & Gas for $2.8 billion in a deal that gave Baytex a strategic foothold in the coveted Eagle Ford play in Texas. Unfortunately, West Texas Intermediate (WTI) oil began to slide shortly after the Aurora purchase closed and the 9% dividend increase that bumped Baytex's annual distribution to $2.88 per didn't last long.

As oil prices tumbled and margins evaporated, Baytex quickly found itself faced with a cash flow problem due to the increased debt load taken on to buy the Eagle Ford assets. Management was forced to slash the dividend and then eventually cancel the payout altogether as the oil rout deepened.

By early 2016, Baytex was down to $2 per share as oil prices bottomed out and the stock has since been quite volatile, rising and falling, sometimes sharply, due to momentum shifts in the oil sector. At one point in 2016, the shares climbed back above $7, but all of the rallies have subsequently proved to be head fakes.

At the time of writing, Baytex trades for $2.30 per share, which is up about 15% from the February 2019 low.

Should you buy?

Oil prices in Canada and the United States have staged impressive recoveries in recent months. A barrel of WTI is back above US$61 and the differential between WTI and Western Canadian Select (WCS) has narrowed considerably after the Albert government put measures in place to control output in an effort to help boost prices. WTI is up nearly 50% from the December 2018 low and WCS has rallied from US$12 per barrel to just under US$50 per barrel today.

This should be positive for Baytex and other producers that are carrying heavy debt loads as they can use the improved margins to chip away at the balance sheet while also boosting the capital program to drive production growth and, ideally, higher revenue and even better cash flow.

In the Q4 2018 report released in March, Baytex said it anticipates having an additional $200 million in cash this year to pay down debt while maintaining production at or above guidance.

As the oil rally continues to extend its run, investors will be more comfortable taking new positions in the sector.

Given the false starts we have seen in the past three years, I wouldn't back up the truck, but contrarian investors who are of the opinion WTI could take a run at US$70 per barrel in 2019 might want to add a bit of Baytex to their portfolios. The stock has a tendency to make big moves and a surge toward $5 wouldn't be a surprise if market sentiment changes and the energy sector catches a strong tailwind.

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