



## Contrarian Investors: Should You Bet on Baytex Energy Corp. (TSX:BTE) Stock Today?

### Description

Contrarian investors are constantly searching for beaten-up stocks that could deliver substantial gains once sentiment improves.

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

### Brutal plunge

Baytex traded for \$48 per share at the top of the oil market when WTI prices fetched US\$100 per barrel. In the first half of 2014, most companies in the energy sector thought the good times were going to continue through the end of the year, and many made big bets to secure resources in promising new plays.

Baytex was one of them, paying \$2.8 billion for Aurora Oil and Gas. When the deal closed in June 2014, the Baytex board raised the dividend by 9% to an annualized payout of \$2.88 per share on the assumption cash flow growth would support the higher distribution while covering payments on the higher debt taken to get the deal done.

Unfortunately, the oil market went off the rails right after Baytex completed the acquisition and six months later Batex was suddenly in survival mode. The company slashed the dividend in order to protect cash flow and investors watched in horror as the stock plunged to \$15.

A brief recovery in the oil market in 2015 enabled Baytex to raise capital at a favourable price. That decision likely saved the business. Things then went from bad to outright ugly, and by early 2016 Baytex traded for \$2 per share.

Three years later, the stock is still limping along around \$2.35 per share, despite the WTI recovery from US\$42 in December to above US\$60 per barrel today.

## Should you buy?

Baytex has made some volatile short-term moves in the past couple of years, both to the upside and back to the multi-year lows. If the recent oil rally can extend through the end of the year, Baytex should be able to generate enough cash flow to boost its capital plan and chip away at the debt position.

As a result, there is potential for a strong move to the upside from the existing level. In addition, the Eagle Ford assets the company acquired in the Aurora deal remain attractive and could attract suitors.

I wouldn't back up the truck, but a small contrarian stake in Baytex might be interesting today if you think the oil recovery has legs.

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