Is Baytex Energy Corp. (TSX:BTE) a Buy on the Latest Dip?

Description

Investors are sifting through the wreckage in the Canadian energy sector to find unloved stocks that could deliver big returns on an extended rally in oil prices.

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

Head fakes

Baytex was a $48 stock that paid an annualized dividend of $2.88 per share back in the summer of 2014 when WTI oil fetched US$100 per barrel. The company had just completed the $2.8 billion acquisition of Aurora Oil and Gas that gave Baytex a significant presence in the attractive Eagle Ford shale play in Texas. Baytex initially announced the takeover in February 2014, offering a 50% premium on the share price of Aurora. The purchase closed in June of that year, shortly before oil prices began their downturn.

The deal loaded up the balance sheet with debt, which caused the company grief as oil prices slipped and margins started to get squeezed. As a result, Baytex soon found itself facing cash flow issues. The company eventually cancelled the dividend, as it struggled to survive the downturn. Management actually did a good job of negotiating new terms with lenders and took advantage of a brief rally in 2015 to raise capital.

The extended slump, however, continued to put pressure on the stock, and it eventually sank to $2 per share in early 2016. In the past three years, however, savvy traders have had an opportunity to make some big bucks on Baytex. The share price went from $2 to $8 in the first half of 2016 before giving up the gains. Last year, the stock rose from $3 in early February to $6 per share three months later. That recovery also faded and Baytex retested the $2 mark in late December.

The oil rally to begin 2019 lifted the share price back to $3 in recent weeks, but a pullback in oil prices over the past few days has wiped 20% off the stock price. At the time of writing, Baytex trades at $2.44 per share.

Bull case

Fans of the stock point to the Eagle Ford holdings as an opportunity for growth. In addition, the merger with Raging River Exploration last year helped improve the balance sheet and added Canadian assets that should be more attractive now that WCS oil prices have recovered from the 2018 lows.

In the Q4 and full-year 2018 earnings report Baytex said its estimated net asset value at the end of 2018 was $7.27 per share. The recovery in oil prices in the first part of 2018 has helped boost cash flow, and Baytex expects to have an extra $200 million for debt reduction this year. Net debt at the end of Q4 2018 stood at $2.23 billion.

Should you buy?

The 20% slide in the stock in the past week is a good reminder that Baytex remains a volatile play. If the rally in oil has already run its course for 2019 and is destined to repeat the performances of recent years, this might not be the right time to add Baytex to your portfolio. Additional downside could be on the way and further weakness in oil prices could push the stock back toward the $2 mark.

That said, contrarian investors who think oil will trend higher over the next couple of years might want to take a small position in Baytex once the latest dip has run its course. A surge back to $5 wouldn’t be a surprise if WTI tops US$70. In addition, the recent uptick in merger activity in the U.S. oil patch could lead to a takeover offer if new interest emerges for Eagle Ford assets.

Investors who think the latest oil rally is just another head fake should seek out other opportunities today.

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