Baytex Energy (TSX:BTE): Is a Stock Price Recovery Possible?

Description

Contrarian investors are constantly searching for stocks that have endured a nasty rout but that might offer a shot at some impressive gains when the sentiment or market conditions improve.

The Canadian energy sector is a popular place to search for deals, and **Baytex Energy** (TSX:BTE)(NYSE:BTE) is certainly an interesting case to consider.

Fall from glory

It's amazing how much can change in a mere five years.

Back in June of 2014, Baytex enjoyed its status as a star pick among dividend investors. The company had just completed its game-changing $2.8 billion takeover of Aurora Oil and Gas in a deal that gave Baytex a major position in the coveted Eagle Ford play in Texas and was supposed to be the foundation for substantial production and cash flow growth.

Management raised the dividend by 9% on the closing of the purchase and investor paid $48 per share for the stock, happy to collect the new monthly distribution of $0.24 per share.

Then the world changed.

Oil started to slide from US$100 per barrel, and within six months, Baytex had slashed the dividend, facing an uncertain future as cash flow dried up and debt obligations weighed heavily on the balance sheet.

To their credit, the Baytex management team acted quickly to slash the payout and renegotiate terms with lenders before anyone realized the extent of the potential downturn. Baytex also made the savvy move to issue stock to raise funds when oil bounced briefly in 2015.

Despite the mitigation efforts, however, the stock continued to slide, dropping below $2 in early 2016. A rally took it back to about $8 that year, and movements have continued to be volatile, moving sharply in

one direction or the other depending on the day-to-day shifts in global oil prices.

At the time of writing, Baytex trades for $1.75 per share.

Opportunity

The company reported Q2 production of 98,400 barrels of oil equivalent per day (boe/d), and confirmed its full-year guidance for just under that amount. Baytex reduced net debt by $236 million in the first half of 2019 and intends to redeem US$150 million in the third quarter.

The situation is stable and Baytex is chipping away at the balance sheet woes. If oil can muster a rally through the end of 2019 and into 2020, the stock could catch a nice tailwind.

Baytex anticipates 2019 funds flow to be roughly $300 million higher than its capital expenditures.

Risk

Baytex has a market capitalization of roughly $1 billion and finished Q2 2019 with net debt of $2 billion.

The company is making progress on the debt, but market prices are not helping. WTI oil is down to US$55 per barrel from the April high around US$66. Western Canadian Select (WCS) is at US$43 compared to US$55 in April. Baytex receives WCS pricing for a good chunk of its Canadian production.

Pundits are concerned we might see a global economic downturn triggered by the trade battle between the U.S. and China. In that scenario, oil could move much lower.

Should you buy?

Traders might be able to book a nice profit on a short-term spike. If oil surges, the stock could easily double. Management is working hard to rebuild Baytex and a takeover offer could eventually emerge.

However, you have to be an oil bull to buy the stock, and the current trend isn't an investor's friend. Baytex continues to hit new record lows, and ongoing volatility should be expected.

Investors with a buy-and-hold strategy should probably search for other opportunities today. The **TSX Index** is home to several oversold stocks that pay reliable dividends and are not at risk of disappearing in the event that we see another commodity rout.

CATEGORY

1. Energy Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/05
Date Created
2019/08/20
Author
aswalker

Footer Tagline