



Should You Buy Baytex Energy (TSX:BTE) Stock for \$1.88?

Description

Contrarian investors are constantly searching for [beaten-up stocks](#) to add to their portfolios on the hope of scoring a big gain on recovery.

The strategy can deliver huge profits if you make the right call, but not all stocks that appear cheap are good buys.

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

Baytex

At the time of writing Baytex trades for \$1.88 per share and doesn't pay a [dividend](#). That's a painful price for long-term holders of the stock who decided to ride out the downturn in the energy sector in the hopes of a recovery.

How bad has it been?

Baytex traded for \$48 in the summer of 2014 and paid an annualized distribution of \$2.88 per share at writing.

The company made a huge acquisition right at the top of the market that gave Baytex a stronghold in the coveted Eagle Ford shale play in Texas, but also saddled the balance sheet with debt right before the bottom fell out of oil sector and cash flow plunged.

Baytex reacted quickly, making some key moves that arguably saved the company. These included issuing stock at a favourable price during a brief oil rally in 2015 and the negotiation of new terms with lenders early in the downturn.

Despite the efforts, however, the extent of the oil rout and the size of the company's debt continue to put pressure on the stock. Baytex finished Q2 2019 with net debt of \$2 billion. That's a lot for a

company with a market capitalization of half that amount.

Better days ahead?

Improved cash flow in the first half of 2019 showed there might be some light at the end of the tunnel. Baytex indicated in the Q2 report that it would redeem US\$150 million in senior unsecured notes in the third quarter.

That said, an extended recovery in oil prices would be needed to enable the company to boost capital spending enough to drive higher production and consequently generate more excess cash to shore up the balance sheet.

At some point, Baytex could become a takeover target, although I wouldn't bet on a big buyout premium.

Should you buy?

Oil bulls might want to start nibbling at the current price. The stock has a track record of making big moves on short-term positive oil news and a quick move toward \$3 per share is possible on a jump in oil prices.

Saudi Arabia is planning to raise some cash by listing its state-owned oil giant, Aramco, on international stock exchanges. In order to get the best price possible for the shares, the country will want oil stock investors to be in a good mood when the company goes public.

Saudi Arabia, its OPEC partners, and Russia have already shown they can coordinate supply restrictions to support the oil market and the current pact that runs through March next year will likely be extended.

As such, there is a chance we could see an oil rally in the coming months and through 2020. If that materializes, Baytex should benefit.

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