



Baytex Energy (TSX:BTE): Could the Stock Price Hit \$5 in 2020?

Description

Energy stocks received a shot in the arm in recent days after a drone attack on Saudi Arabia's production and processing facilities sent global oil prices soaring.

Supply concerns

The news shocked the energy industry, initially sending WTI and Brent oil prices nearly 20% higher as traders scrambled to exit short positions and investors bet on an extended outage.

The United States helped calm fears by issuing a notice that it would release emergency supplies into the market, if needed. Saudi Arabia quickly assessed the damage, and by the end of the first trading day after the attack, had restored roughly 30% of the 5.7 million barrels per day of production that went offline.

The country said full output will be restored by the end of September.

Despite the rapid recovery, however, the price of oil continues to trade nearly 10% higher than it did before the attack, suggesting the market is now pricing in a risk premium.

A war of words has emerged in the Middle East, with the U.S. blaming Iran for the strikes and Iran warning of an all-out war if there is a retaliatory military strike. Any escalation in conflict in the region, or additional attacks on oil production facilities could send the price of oil soaring.

Some pundits say a surge to US\$100 per barrel would be possible. WTI oil currently trades for just under US\$60 per barrel.

Should you buy Baytex?

Contrarian investors are taking a hard look at some of the [oil producers](#) that have struggled to recover in the wake of the crash that began in 2014.

Baytex Energy ([TSX:BTE](#))(NYSE:BTE), for example, traded for \$48 per share five years ago and paid an annualized [dividend](#) of \$2.88 per share.

Today, the dividend no longer exists and investors can pick up the stock for \$2.25. That's after the recent jump from the August low of \$1.55.

Baytex finished Q2 2019 with net debt of \$2 billion, and the balance sheet risk is the big reason the stock has fared so poorly in the past couple of years. That cloud is going to remain over the stock in the near term, but there are indications better days are on the way.

The company just redeemed US\$150 in senior unsecured notes and is anticipating \$300 million in free cash flow for 2019. This sends a message to investors that Baytex is starting to get serious about trying to chip away at its position.

Baytex is targeting average annual output of 97,000 barrels of oil equivalent per day (boe/d) for 2019, hitting the high end of its original guidance. Capital spending for the year will be close to \$560 million, which is at the lower end of the initial range set for 2019.

In the event oil prices drift higher in the coming months and through 2020, Baytex could catch a nice tailwind. The more cash flow the company can generate to reduce debt and boost its capital plan, the more comfortable investors will be with the balance sheet.

The stock has a tendency to make big moves in a short time frame, as we have seen with the 45% increase over the past three weeks. A move back toward \$5 therefore wouldn't be a surprise on an extended oil rally.

Saudi Arabia is planning to sell part of its state-owned oil company, Aramco, through an IPO. The OPEC leader will want oil prices to be in an upward trend when the offering occurs.

On the other side of the equation, President Trump will want to keep oil prices low next year, especially in the months leading up to the election.

Given the volatility in the sector, I wouldn't back up the truck. However, oil bulls might want to start adding Baytex to their contrarian portfolios while the stock remains out of favour. The company may finally be on the mend.

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