Baytex Energy (TSX:BTE) Has More Than 50% Upside!

Description

Solid operating performance at **Baytex Energy** (TSX:BTE)(NYSE:BTE) and an increasingly strong track record are both working in the company's favour, and whether the market recognizes it or not, this will fall to the bottom line. This means that the company's bottom line will continue to show stellar results and that the needle will be moved on investors' bottom line (stock price increases).

Solid operational performance

The current sentiment on everything energy related is really at rock bottom, making the lens that investors see everything through negative. That's just the reality of things today. However, we can continue to focus on company-specific fundamentals to uncover where the real bargains are in the space.

Baytex's stock price keep heading lower amid this sentiment and all the fears surrounding the oil and gas sector. The stock has lost 26% of its value year to date in what has felt like a sea of never-ending negativity and ultimately a value trap for those investors that see the value in the company and the stock.

There are a few positive points that I would like to focus on that I believe highlight the value in Baytex stock. First, production estimates have been rising, with 2019 production expected to be 21% higher year over year. Second, the company's operating netback is recovering, having recently achieved the highest operating netback since 2014. Third, strong exploration results at reduced expense are capping off strong operational results nicely.

Free cash flow positive!

Although it may seem unbelievable, the reality is that Baytex is actually free cash flow positive today; it had $125 million in the latest quarter and an expectation for free cash flow of approximately $300 million for the full year. This is the result of choices that were made necessary in this prolonged weak commodity price environment for all Canadian oil and gas companies.

Capping off the review of the company's operational/financial performance, we should look to Baytex's acquisition of Raging River back in 2018. This acquisition turned the tide on Baytex, as it provided the company with diversification, a stronger cash flow profile, a stronger growth profile, and a way out of its once crippling debt. It gave Baytex access to WTI pricing for 30% of its liquids production and access to the premium Louisiana Light Sweet pricing for 26% of its liquids production.

A great acquisition, but Baytex paid the price in terms of its balance sheet and a loss of investor confidence. Today, management is working to regain investor confidence and the company's financial strength. As a clear sign of progress, we can look to Baytex's net debt to cash flow ratio. It currently stands at a very acceptable 2.5 times compared to highs of 6.8 times in 2016. This is a huge improvement that allows management to focus on the improving and growing the business rather than on simply staying afloat.

Foolish bottom line

Of course, the key risk to Baytex stock and all oil and gas stocks is the prices of oil and gas. While we nor the company can do much about that, we can uncover those companies that have great asset bases, solid balance sheets, and company-specific strengths that will enable them to survive cyclical lows and thrive in better times. Baytex is becoming one of those companies, and due to past mistakes, Baytex stock is not reflecting this, trading well below its estimated net asset value of approximately $4, making it a very attractive buy with +50% upside.

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