



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

Description

The stock price of **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) is back below \$2 per share, and investors are wondering if this a good time to start a contrarian position in the Canadian oil and gas producer.

Let's take look at the current situation to see if Baytex deserves to be on your [buy list](#).

Rough ride

Baytex trades for \$1.70 per share, which isn't too far off the 2019 closing low of \$1.55 it hit in late August. A September rally saw the stock top \$2.30, but a decline in oil prices in the past two weeks has put renewed pressure on the share price.

Long-term followers of the stock will invariably invite newcomers to take a quick peek at the five-year chart. It isn't pretty.

Baytex traded for \$48 per share in the summer of 2014 and still fetched more than \$35 in the first part of October that year. The bottom then fell out, as investors realized the steep decline in the price of oil from the US\$100 level wasn't likely to reverse course in a timely manner, and by the middle of December, the stock was down to \$15. Ouch!

A brief bounce occurred in the first half of 2015, supported by an oil rebound. Baytex took advantage of the pop in the market to raise capital. The move helped keep the company afloat and is arguably a big reason Baytex has avoided a liquidation of assets throughout the downturn.

Unfortunately, the [energy sector](#) has continued to struggle and the stock keeps hitting lower lows after each brief bounce on short-term positive market news.

Balance sheet

Baytex finished Q2 2019 with net debt of about \$2 billion. At the time of writing, the company has a

market capitalization of less than \$1 billion, so the debt remains a concern for investors and is a big driver of the chaotic moves in the stock price.

The merger with Raging River Exploration in 2018 helped the balance sheet, but the market has not responded well to the deal.

On the positive side, Baytex benefitted from stronger margins in the first part of 2019 and managed to reduce debt by \$147 million in the second quarter. The company announced the redemption of US\$150 million in notes in September.

An item to watch in the Q3 report is the cash flow projection. The September 9th update indicated 2019 free cash flow would be \$300 million. This guidance was left out of the September 24th report that also announced the COO and the VP of exploration had left the company.

Should you buy?

Oil prices have continued to weaken after the short rally that occurred in the wake of the September 2019 attacks on Saudi Arabia's production and processing facilities. WTI oil now trades at US\$52, about \$3 below where it was before the incident.

The quick return to weakness suggests the oil market is more concerned with the threat of a global economic recession, than supply risks.

Big percentage moves Baytex's stock price, similar to what we have witnessed since late August, should be expected now that Baytex is trading at such low levels. As a result, investors have to be careful chasing dips and shouldn't allocate a significant part of their portfolios to the stock.

This isn't the right time to swing for the fence.

However, contrarian investors with a bullish view on oil in the near to medium term might want to start nibbling. The upside can be significant on an oil rebound.

If the volatility is too much to handle, there are other stocks in the market right now that appear cheap a deserve to be on your radar.

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