



Is Baytex Energy (TSX:BTE) Stock Too Cheap to Ignore?

Description

The energy sector remains out of favour with investors, and some of the Canadian [oil stocks](#) are now trading at prices that nobody would have believed possible just a few years ago.

The decline has been particularly bad for companies that took on large debt positions during the height of the oil market when WTI prices traded around US\$100 per barrel.

Baytex Energy ([TSX:BTE](#))(NYSE:BTE), for example, trades at close to \$1.50 per share today compared to \$48 in the summer of 2014.

Long-term holders of the stock are not happy right now, and a return to the glory days is probably not in the cards. At its peak, Baytex paid an annualized [dividend](#) of \$2.88 per share. Today, the dividend is gone, and Baytex is focused on shoring up the balance sheet.

The company's woes stem from a major takeover right at the top of the market. In June 2014, Baytex paid \$2.8 billion to buy Aurora Oil and Gas to secure a foothold in the coveted Eagle Ford shale play in Texas. The board was comfortable enough with the anticipated boost to cash flow that it raised the dividend by 9% on the closing of the deal.

Unfortunately, oil began its decline shortly after the acquisition, and despite a few head fakes along the way, the sector has continued to struggle. Baytex saw its share price pop a couple of times, but has subsequently tested lower lows.

Traders with a knack for making quick moves on positive news, however, have done well with the stock in the past few years, and that's part of the reason Baytex is getting contrarian interest.

The share price surged from \$2.50 in January 2016 to \$7.50 in June that year. Another rally saw the share price run from \$3 in early 2018 to \$6 a few months later, before falling back on weaker oil prices.

Opportunity

Oil bulls are hoping a new rally is on the way. Tensions between Saudi Arabia and Iran could lead to a direct military conflict that would potentially send WTI oil back toward US\$70 or US\$80 per barrel. In addition, any news of a significant trade deal between the United States and China would likely give oil a lift.

At the time of writing, WTI oil trades at US\$55 per barrel.

Baytex finished Q2 2019 with net debt of roughly \$2 billion. That's a heavy load for a company with a market capitalization of \$850 million. The positive side of the situation is that the management team has kept the company alive without dumping the most prized assets.

In the event oil can muster a sustainable rally, Baytex would see margins expand and have room to boost the capital program to drive higher production and better cash flow.

Should you buy?

The stock remains volatile, and any broad-based negative news in the oil market could quickly send the share price toward \$1. As such, I wouldn't back up the truck, regardless of how cheap Baytex appears right now.

That said, contrarian investors with a positive near-term outlook on the oil market might want to consider a small position. There is a chance a white knight could swoop in and buy the company at a premium. In addition, any surprise surge in oil prices could easily send the stock back toward \$3.

Investors who prefer less-volatile bets might want to check out other oversold stocks in the market today.

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