Energy Investors: Is This 1 Stock a Contrarian’s Paradise?

### Description

**Baytex** (TSX:BTE)(NYSE:BTE) is an oil and gas corporation engaged in the acquisition, development, and production of oil and natural gas in the United States and the Western Canadian Sedimentary Basin.



Its share price has decreased 35% since the beginning of the year and has a current market capitalization of $887 million. Its revenues are derived from light oil and condensate, heavy oil, natural gas liquids (NGL), and natural gas sales.

Light oil and condensate account for 52% of its revenues followed by heavy oil at 46%.

## An interpretation of the numbers

For the nine months ended September 30, 2019, the company reported an unimpressive balance sheet with negative retained earnings of $3.2 billion due to many years of net losses. This has improved by $105 million from $(3.3) billion due to a net income reported in this period of $105 million compared to a net loss of $94 million last year. Looking at its liabilities, the company has paid off $198 million of long-term debt, which is good.

Baytex’s revenues increased by 34% year over year from $836 million to $1.1 billion due to an increase in light oil and condensate sales. Management does a good job at keeping costs down given an increase of $43 million in total expenses on $281 million in revenue. The growth in revenues resulted in net income of $105 million compared to a net loss of $94 million in the same period the prior year.

Operating cash flows continue to be strong year over year with an increase from $316 million to $600 million. This is complemented by an increase in capital expenditure spending by $89 million, which indicates additional resources are being added to aid in the extraction of oil and gas.

## But wait, there's more

Looking at the company's notes indicates a couple of important items.

Firstly, the company has credit facilities that total $1.048 billion, of which $652 million is utilized as at the end of the period. This equates to a utilization of 62%, which gives the company access to almost $400 million of additional liquidity if needed. This is a good sign for investors, as it provides Baytex a cushion to weather downturns and to fund additional growth.

Secondly, the company received several reassessments from the CRA in June 2016 which denied $591 million of non-capital loss deductions. Since an appeals officer was assigned to the file in July 2018, there have been no change in the status of the reassessments, but the company believes the original filings were correct. In the event that these non-capital loss deductions are denied, the company could be on the hook for $591 million in additional taxable income.

Finally, the company recognized $10.6 million in deferred tax recovery due to a decrease in Alberta's income tax rate from 12% to 8%. In the future, investors can expect to see additional one-time decreases until January 1, 2022, when the 8% tax rate comes into full effect.



## Foolish takeaway

Investors looking to buy shares of a diversified oil and gas company should consider buying shares of Baytex. Despite its negative retained earnings, management has demonstrated adeptness in managing the business, as indicated by revenue growth that has outpaced growth in expenses.

Baytex also has $400 million available on its line of credit, which provides the company adequate liquidity for both foreseeable and unforeseeable future events.

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