Is Baytex Energy (TSX:BTE) Stock a Buy at $1.45 Per Share?

Description

The Canadian energy sector is full of former dividend stars that have lost their shine.

While challenges continue for those with heavy debt loads, contrarian investors are starting to kick the tires on some names that could offer decent upside if the price of oil finds a way to rally in 2020.

Let's take a look at **Baytex Energy** (TSX:BTE)(NYSE:BTE) to see if it deserves to be on your contrarian buy list heading into next year.

Oil market

The price of Western Texas Intermediate (WTI) oil is US$58 per barrel. It started the year below US$50 but spent most of 2019 above that level and briefly topped US$65 in April.

Western Canadian Select (WCS) sells at a discount to WTI due to pipeline bottlenecks that make it difficult to get Canadian oil to international markets. The Alberta government put production restrictions in place late last year to help boost the WCS price, which had fallen as low as US$11 per barrel. WCS began 2019 at US$33 per barrel and got as high as US$55 in the spring. Today, it is at US$38 after a recent surge from the US$30 mark likely due to Midwest refining capacity coming back online.

The Federal government also announced it is moving ahead with construction of the Trans Mountain pipeline. If the asset actually gets completed, WCS should get a boost.

On the international front, OPEC and a handful of partner producers just wrapped up a marathon meeting. The anticipated agreement to further restrict supply didn't materialize, so oil prices might drift lower in the near term.

However, Saudi Arabia just raised US$25.6 billion in a record-breaking initial public offering of Aramco. The oil giant might act in the coming months to nudge oil prices higher in an effort to help support the share price and foster strong demand for the stock.

A trade agreement between China and the United States in 2020 could also give oil prices a boost. Pundits say fears about a potential global recession triggered by the trade battle are keeping a lid on gains in the oil market.

Should you buy Baytex?

Baytex trades at less than $1.50 per share. That’s well off the $48 it fetched in the summer of 2014 when WTI sold at US$100 per barrel. The decline and is a good example of the challenges oil producers with high debt have faced in recent years.

Baytex has been hit harder than some of its peers, primarily due to a major acquisition that closed right before oil began to slide. Baytex paid $2.8 billion to buy assets in the Eagle Ford shale play in Texas in a deal that was supposed to provide the base for the company to be a major producer in the region.

The debt load Baytex took on to close the deal continues to impact the stock. At the end of Q3 2019, Baytex had net debt of just under $2 billion. This is high for a company that currently has a market capitalization of $810 million.

The stock continues to hit new lower lows, recently dipping to $1.33 per share. As a result, I wouldn’t back up the truck. If oil prices tank for some reason in the coming months, Baytex could test the $1 mark.

That said, contrarian investors with a bullish outlook on oil might want to start nibbling. An argument can be made that the stock is oversold, given the potential of the assets.

A rally in oil prices could quickly drive the share price back up to $3-$4, and there is an outside chance the company could be bought.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks

2. Investing

Date
2025/07/05
Date Created
2019/12/06
Author
aswalker