



Could Baytex Energy (TSX:BTE) Stock Hit \$5 in 2021?

Description

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) soared from \$0.30 per share at the 2020 low to as high as \$1.50 last month. A pullback over the past few weeks has investors wondering if Baytex stock is [undervalued](#) and a good buy.

Tough times

Investors who bought Baytex stock near the 2020 low are sitting on some nice gains, and more upside could certainly be on the way. Long-term holders of the stock might not be overly impressed with the bounce.

A decade ago, Baytex traded for more than \$50 per share and used to be a go-to stock for [dividend investors](#) in the energy sector who wanted reliable high-yield payouts.

The good times lasted until the summer of 2014. Unfortunately, Baytex closed its [\\$2.8 billion purchase](#) of Aurora Oil and Gas Limited in June of that year, right at the peak of the oil market. Management hoped the strategic Eagle Ford assets would drive strong revenue growth and profits. The board even raised the dividend at the time by 9% to an annualized \$2.88 per share.

Fewer than six months later, the stock was down to \$15 per share, and Baytex slashed the distribution to preserve cash as oil prices tanked. Aside from a brief bounce in 2015 when oil temporarily rebounded and the shares moved back above \$23, the situation has steadily deteriorated, hitting the bottom during the pandemic rout last year. Baytex lost its listing on the NYSE last December.

Today, the company pays no dividend at all and still trades at a fraction of its previous value.

Upside

Baytex has managed to avoid dumping its best assets at fire-sale prices, giving the company a chance to develop the properties or monetize them at high values as the oil market recovers.

Production is targeted at 73,000-77,000 barrels of oil equivalent per day (boe/d) for 2021. Capital expenditures are expected to be \$225-275 million. The company hedged 48% of 2021 production at WTI of US\$45-US\$52 per barrel. So far, the hedge leaves about 20% of potential profits on the table, but the unhedged production benefits from oil's move above US\$60.

Assuming WTI averages US\$58 per barrel in 2021, Baytex expects to generate more than \$250 million in free cash flow and increase liquidity to more than \$550 million. This gives it some flexibility in the event oil prices tank again later in the year on in early 2022.

The company finished 2020 with \$1.8 billion in long-term debt. That's still pretty high for a company with a market capitalization of roughly \$700 million, but a sustained surge in oil prices could allow Baytex to increase its capital plan and boost production to drive even higher revenue and greater free cash flow.

Baytex would then have room to knock the debt down to a more comfortable level. This would make the stock more attractive to investors and potentially drive the share price much higher.

The stock already appears cheap based on Baytex's own net asset value calculation. The company figured it was worth about \$2.78 per share at the end of last year, and that includes a 10% discount.

Risks

Oil prices are higher than the market expected coming into 2021. Volatility could still be on the way if OPEC+ decides to increase supply more than expected and demand recovery takes a hit due to new COVID-19 waves in large markets such as India and Europe.

If oil prices plunge again, investors could dump the stock on renewed debt fears.

The bottom line on Baytex stock

I wouldn't back up the truck in the hopes that the stock will rally to \$5 by the end of the year. However, oil bulls who are of the opinion that oil will continue to trend higher in the back half of 2021 and into next year might want to start nibbling at the current share price.

Baytex carries risk, but the stock has big upside potential if oil price surge.

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