



## Baytex Energy Stock: Time to Buy?

### Description

**Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) bottomed out near \$0.40 per share last fall and now trades above \$2. Investors who missed the huge rally want to know if Baytex stock is still [undervalued](#) and deserves to be on their buy lists.

### Baytex stock rally

It took courage to step in when WTI oil traded around US\$36, but investors who bought Baytex Energy stock at the end of October last year are all smiles today. The share price has increased more than fivefold and continues to enjoy a strong tailwind. WTI oil recently hit a two-year high above US\$70 per barrel. Analysts widely expect oil to hit \$80 this year, and some of the bulls are calling for a spike to [US\\$100 per barrel](#) in 2022 or 2023.

In that environment, all of the oil producers should see their share prices move higher and the ones that took the biggest hits in recent years, like Baytex Energy, could continue to outperform the majors. Baytex Energy used to be a dividend darling in the oil patch and traded for \$48 per share in 2014, the last time WTI oil was US\$100 per barrel.

### Upside opportunity

When Baytex Energy reported its 2020 results, the company calculated its net asset value at the end of the year, discounted at 10%, to be \$2.78 per share based on the estimated reserves value and a value for undeveloped acreage, less long-term debt and working capital. At the time, the stock traded near \$0.70 per share, and WTI oil was about US\$49 per barrel.

If you assume the company's calculations are reasonable, the net asset value estimate should probably be higher today, and the current share price of \$2.15 still looks cheap.

Debt has been Baytex Energy's big problem over the past seven years. The company continues to chip away at its debt load, reducing net debt by \$89 million in Q1 2021. Net debt at the end of March

was \$1.76 billion. The company has a current market capitalization of \$1.2 billion, so the situation is getting better.

As long as the price of oil remains at its current price or moves higher, Baytex Energy should be able to beat its plan to generate more than \$1 billion in cumulative free cash flow from 2022-2025. The estimate is based on average WTI pricing of US\$55 per barrel.

Oil companies can become free cash flow machines when times are good, and we are starting to see that play out in 2021. Higher oil prices result in growing revenue and this enables oil producers to boost capital expenditures and increase output. In bad times, the spiral goes the other way, and the impact can be brutal, especially when the balance sheet is loaded with debt. That's what happened to Baytex Energy after oil crashed in the second half of 2014.

## Should you buy Baytex stock now?

Oil prices tend to be volatile and stocks that trade for less than \$5 can see wild percentage swings in a short period of time. As a result, I wouldn't back up the truck today. OPEC could surprise the market with a large production increase, and a new deal with Iran could flood the market with the oil it has stockpiled.

That being said, Baytex Energy stock still appears cheap and could easily take a run at \$3 per share by the end of the year if oil prices continue to drift higher. If you are an oil bull, it might pay off to add a bit of Baytex stock to your portfolio at this level.

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