Baytex Energy (TSX:BTE): What to Expect From its Q1 2022 Earnings

Description

Investors seem confident that Canadian energy companies will see higher earnings growth in Q1 2022. How high will the numbers be, and how upbeat will management's commentary be? One of the top gainers, **Baytex Energy** (TSX:BTE)(NYSE:BTE), is among the early reporters and will release its numbers on April 28. The stock has gained 400% since last year, and its Q1 numbers will likely provide another major impetus to climb higher.

TSX energy stocks continue to delight investors

Higher oil and gas prices have notably boosted energy companies' earnings since last year. The upcoming release is all the more important, as energy commodities hit their multi-year highs during the quarter amid the Russia-Ukraine war. Interestingly, TSX energy stocks have more than doubled in the last 12 months, beating broader TSX stocks by a wide margin.

According to analysts' estimates, Baytex Energy will report earnings of $0.17 per share for the quarter that ended on March 31, 2022. Its year-ago EPS was negative $0.06 per share. Apart from the higher earnings, Baytex could see significant margin expansion, which could uplift investor sentiment further.

Last year, the company generated $421 million in free cash flows, relative to just $70 million in 2020. Baytex deployed most of these free cash flows towards debt repayments, substantially strengthening its balance sheet. We might see superior free cash flow growth in Q1 2022 as well and a large chunk of it going again to deleveraging.

Baytex Energy is a $3.6 billion oil and gas producer that aims to produce a little over 80,000 barrels of oil equivalent per day this year.

Strong balance sheet and a striking growth outlook

Baytex aims to bring down its net debt to $1.2 billion by Q2 2022. After achieving the target, it will allocate 25% of its free cash flows to share buybacks.

Share buybacks generally increase share prices in the short term and indicate management's view that the shares are undervalued. Also, share buybacks decrease the number of total outstanding shares, making the dividend payments higher without actually increasing the allocation.

Almost all Canadian energy producers have shown excellent capital discipline since the pandemic. Higher demand amid the re-openings and supply constraints have boosted oil and gas prices since mid-2020.

So, energy producers saw meaningful free cash flow growth. Instead of deploying more for capex, they allocated higher for debt repayments and higher dividends. As a result, TSX energy stocks have rallied like crazy and are still going strong.

According to Baytex management's previous pessimistic outlook, it expects free cash flows to average around $400 million per year for the next three years, if WTI crude oil stays at US$65 per barrel. Its net debt-to-EBITDA ratio will go down to 0.2 in that case. The optimistic case sees free cash flows exceeding $900 million per year through 2025 and the company becoming debt free by 2024 if WTI averages US$95 a barrel.

Notably, we might see an improved outlook in its upcoming release after oil's epic ascent in Q1.

Bottom line

Interestingly, the energy sector was looked at with disdain by investors for years. However, everything fell in place through the pandemic, and the sector is on the brink of becoming a top-rallying sector for the second year in a row.

Despite rallying to the record, Baytex Energy stock still has steam left. It could rally on higher Q1 numbers, an improved outlook, and a more strengthened balance sheet.

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