



Time to Buy Baytex Energy Stock?

Description

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) is up 70% in 2022. Investors who missed the rally are wondering if the stock is still [undervalued](#) and if more big gains are on the way.

Baytex Energy Q1 2021 earnings

Baytex Energy reported strong Q1 2022 results supported by the surge in oil and natural gas prices. Production rose 3% compared to Q1 2021, and adjusted funds flow surged to \$280 million, up 78% over the same period last year.

Free cash flow came in at \$121 million, or \$0.21 per share, compared to \$0.13 per share a year ago.

Baytex Energy used the excess cash to reduce net debt by 10% in the quarter to \$1.28 billion. The huge debt burden taken on by the company when it made a large acquisition in the summer of 2014 at the peak of the last oil rally is the main reason the stock fell from \$48 per share that year to less than \$0.50 at the 2020 low.

Outlook

Management expects to generate \$700 million in free cash flow in 2022. Starting this month, 25% of the free cash flow will be used to repurchase shares. The remainder will go towards further debt reduction until the company reaches net debt of \$800 million. Based on current prices, Baytex Energy expects to hit that level in early 2023.

The strong price environment is giving Baytex Energy some flexibility to increase its capital program by \$50 million this year. As a result, management expects average production to be 83,000-85,000 barrels of oil equivalent per day (boe/d) compared to previous guidance of 80,000-83,000 boe/d.

Under the current five-year plan based on an average WTI oil price of US\$75 per barrel Baytex Energy expects to generate \$3 billion in cumulative free cash flow with annual production growth of 2-4%

reaching 95,000 boe/d in 2026.

Under the current 12-month share-buyback plan, Baytex Energy intends to repurchase up to 10% of the outstanding stock.

Baytex Energy owns attractive reserves in both Canada and the United States. The U.S. production is sold at WTI pricing. When Baytex Energy acquired the Eagle Ford assets nearly eight years ago, the deal nearly killed the company after oil prices plunged in the second half of 2014 and remained under pressure for several years. If oil prices stay near current levels, the properties could finally start to deliver on their potential.

Oil market

WTI oil remains above US\$100 per barrel and could be there for the next couple of years. Sanctions against Russia are expected to increase and might last a long time. This puts pressure on an oil industry that is already struggling to increase output due to heavy investment cutbacks in the past two years.

Should you buy Baytex Energy stock now?

Investors who had the courage to buy Baytex Energy below \$1 per share are sitting on some nice gains. At the time of writing, the shares trade for close to \$7. As mentioned above, this was once a \$48 stock. Baytex Energy might not get back to that level, but the debt risks are rapidly disappearing, and that should put a floor under the share price.

Volatility should be expected, but oil bulls might find it worthwhile to start a new position today.

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