



Baytex Energy (TSX:BTE): Should You Buy the Dip?

Description

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) recently pulled back after posting amazing gains in the first few month of the year. Investors who missed the rally are wondering if BTE stock is now [undervalued](#) and a good buy.

Baytex history

A decade ago, investors loved Baytex for its generous and growing dividend. In fact, the stock was a dividend star in the energy sector. Unfortunately, a major acquisition that closed at the peak of the last oil rally saddled the company with debt and led to one of the worst meltdowns in the Canadian oil patch.

Baytex traded for \$48 per share in the summer of 2014, when WTI oil was US\$100 per barrel. The board had just raised the dividend by 9% to an annualized payout rate of \$2.88 per share after completing the \$2.8 billion purchase of Aurora Oil and Gas.

The plunge in the price of oil through the end of 2014 sent the stock into a tailspin and forced Baytex to cut the dividend. By the middle of December 2014, the stock was down to \$15 per share, and aside from a few brief rallies, things continued to get worse. Investors who tried to pick the bottom over the next few years lost their shirts, as the arrival of the pandemic sent the share price into another tailspin. Baytex stock traded as low as \$0.30 in 2020.

Oil market

Commodity prices go through cycles and oil is now in another bull run. At the time of writing, WTI oil trades for US\$108 per barrel. It topped US\$120 twice this year, and oil bulls are of the opinion it will retest this level and potentially move much higher in the coming months.

Why?

Oil producers slashed capital investments over the past two years to preserve cash. The result is a

lack of new output coming into the market at a time when demand is recovering quickly and excess stockpiles from the pandemic have effectively disappeared. The war in Ukraine has added to the upward pressure on oil prices and sanctions imposed on Russia could push prices higher late this year and into 2023.

Is Baytex stock now a buy?

Baytex trades for \$6.25 per share at the time of writing. That's down from the 2022 high above \$9. The rebound in the price of oil has enabled Baytex to pay down debt to the point where the balance sheet has stabilized. The company managed to hold on to most of its top assets during the downturn, and that positions Baytex well for growth in the coming years. Excess cash is being used to reduce debt and buy back stock in 2022. A reinstatement of the dividend could be on the way in 2023.

The drop from the recent high gives oil bulls a chance to buy Baytex on a nice dip. If oil surges back above US\$120 through the second half of this year, which is certainly possible if the recession outlook improves, Baytex could easily retest \$9 per share or go even higher.

Baytex can be a volatile stock, so I would keep any new investment small. Oil should catch a new tailwind in the coming months, but a dip to US\$70 per barrel is also possible if recession fears dominate the market.

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aswalker

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