



Will Baytex Energy's Stock Price Soar in 2023?

Description

Energy stocks were top performers last year. However, smaller oil and gas producers like **Baytex Energy** ([TSX:BTE](#)) were overlooked by mainstream investors. Baytex delivered just 26.7% in total returns over the past year while larger energy stocks nearly doubled.

Will this year be any different? Here's a closer look.

Energy crunch

Oil and gas prices have moderated in recent months. However, the underlying issues plaguing the global energy sector haven't evaporated. Russia's invasion is still ongoing, while China's economy is emerging from a strict lockdown. That means supply and demand for energy are still out of balance in 2023.

Some investors believe a deep recession could drain demand. Two-thirds of prominent economists across the globe expect a severe recession this year, according to the World Economic Forum.

In previous recessions, the price of oil and gas has declined substantially. However, many of these concerns may have already been priced in. West Texas Intermediate crude has slipped to US\$78.6 while natural gas has dipped to US\$3.6 per unit. The World Bank forecasts an average price of US\$80 to US\$92, despite a recession.

If the upcoming recession is milder or shorter than expected, oil prices could rebound higher. With that in mind, Baytex's valuation depends on the severity of the upcoming recession.

Baytex valuation

Baytex management expects to generate US\$575 million (CA\$770 million) in free cash flow over the next five quarters at the current price of crude. That means roughly \$580 in free cash flow for 2023 if oil prices remain around US\$80 to US\$90.

Meanwhile, the company's market value is \$3.2 billion. That means the stock trades at a forward price-to-free cash flow ratio of 5.5 or a free cash flow yield of 18%. Much of this excess cash flow could be handed back to shareholders this year in the form of [special dividends](#) or buybacks.

Put simply, Baytex stock is an excellent passive-income play for 2023. However, I wouldn't expect much price appreciation. Investors overlooked this stock last year when energy prices were surging. If the energy market is more stable this year, these mid-cap energy companies could be too boring for the average retail investor.

Bottom line

The energy sector clearly outperformed the rest of the [stock market](#) last year. However, retail investors may have overlooked small- and mid-cap energy stocks like Baytex Energy.

This year, the forecast is much more mundane. Energy prices face lower demand but supply constraints put a floor on the price of crude. That means Baytex and its peers can expect substantial free cash flow. Investors can expect as much as 18% in free cash flow yield in 2023 at current oil prices.

However, the story isn't exciting enough to attract the attention of retail investors. That means price appreciation could be lower than anticipated. Baytex is an excellent stock for income-seeking investors. Growth investors should look elsewhere.

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