



Is Baytex Energy Stock a Buy?

Description

Baytex Energy ([TSX:BTE](#)) soared after the pandemic [market crash](#) but is now down considerably from the 12-month high. Investors who missed the big rally through 2021 and the first half of last year are wondering if this is a good time to add BTE stock to their portfolios.

Baytex Energy overview

Baytex used to be one of the dividend darlings in the Canadian oil patch before the oil crash of 2014. The fallout from an ill-timed acquisition along with the plunge in oil prices sent Baytex's stock price into one of the worst downward spirals in the Canadian oil [sector](#).

What happened?

The company completed its \$2.8 billion purchase of Aurora Oil & Gas in June of 2014. The deal added assets in the then coveted Eagle Ford shale play in Texas. Oil was about US\$100 per barrel, and the rosy outlook for revenue and cash flow growth motivated the board to raise the dividend by 9% to an annualized payout of \$2.88 per share. At the time, Baytex stock traded for around \$46 per share and topped \$48 that summer before the bottom fell out of the oil market.

High debt and crashing revenues forced management to eventually shelve the distribution. The stock began an extended downward trend that eventually saw the share price fall to just \$0.30 at the nadir in 2020.

Investors who had the courage to buy at that point have since been rewarded with significant gains, but anyone who has held the shares through the past 10 years is still hoping for a miracle recovery.

Baytex stock currently trades for close to \$6 per share and was as high as \$9 last year.

Outlook

The rebound in the price of oil over the past three years has enabled Baytex to reduce debt and shore up the balance sheet. In the February 2023 investor presentation, Baytex says its 2022 to 2026 plan is to generate more than \$3 billion in free cash flow assuming West Texas Intermediate (WTI) oil averages US\$80 per barrel. The price is close to that right now and was above US\$120 a couple of times last year.

Based on the WTI average price of US\$80, Baytex intends to return about 50% of free cash flow to investors. This began last year with 25% of free cash flow allocated to share buybacks. That increases to 50% allocated to buybacks once net debt drops to \$800 million. Net debt was down to \$1.1 billion at the end of the third quarter of 2022 from \$1.4 billion at the beginning of last year.

Net debt should fall to the \$800 million point by the second half of 2023 if oil remains near its current level.

Once net debt drops to \$400 million, the board intends to return 75% of free cash flow to investors. This is expected to occur in 2024, with WTI averaging US\$80 per barrel.

Baytex is targeting capital investments of \$575 to \$650 million in 2023 with production expected to be 86,000 to 89,000 barrels of oil equivalent per day (boe/d). Based on this year's oil price expectations the business is targeting free cash flow generation of about \$450 million in 2023.

Should you buy Baytex stock now?

Ongoing volatility should be expected, but oil bulls might want to consider adding Baytex to their portfolios while the stock remains largely out of favour. The balance sheet is no longer an issue, and the company has the potential to be a long-term cash flow machine if the price of oil remains at or above US\$80 per barrel.

A return to \$48 per share might be too optimistic, but a double from the current price wouldn't be a surprise if oil prices trend higher over the next couple of years.

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