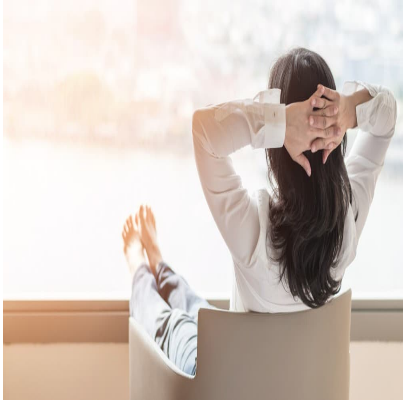

Looking for a High Risk, High Reward Play? Look No Further

Description

I've written about the dangers of investing in a company like **Baytex Energy** (TSX:BTE)(NYSE:BTE), given various balance sheet issues with heavy oil plays like this in Canada. While Baytex still has a ton of debt, I'm going to make the bull case for why Baytex could be a decent long-term buy and hold at these levels, given its risk/reward proposition today.

Baytex is one of Canada's fallen angels in the oil and gas sector, and is now trading at below $1 billion valuation. Investors only need to look at the stock chart of this company over the past 10 years to see how terrible this recent bear market in commodities has been for Baytex, with the company now trading at a fraction of its previous value.

With the overall outlook for heavy Canadian oil (Western Canadian Select) waning, and with seemingly no end in sight to many of the headwinds hampering this sector, one might wonder why I would even talk about a company like Baytex right now.

The reality is that many of the companies that look awful from a growth or long-term prospectors currently are trading at levels that more than discount such pessimism. Companies like Baytex are in survival mode right now, making any sort of growth story impossible.

Spinning off businesses and doing things like refinancing debt don't scream "buy" to investors looking solely for growth and sectors with a positive 10-year outlook. Thus, these companies continue to be discounted further, exacerbating the flight of capital from this sector altogether.

To what degree capital will return to Canada's oil patch is questionable as well, given clear environmental issues with the sector. ESG is a real thing now, which means that pathway to capital appreciation remains a murky one, at best, for investors.

Herein lies (some of) the risks associated with a company like Baytex.

The reward?

Many investors may (correctly) view the fact that Baytex is in survival mode as a negative from a growth perspective. However, the reality is that Baytex has not only found a way to survive, but has also undertaken a number of actions that could increase the outlook for this company over the intermediate to long term.

For example, Baytex has made investments in high-quality light oil plays in Texas, thus diversifying the company's business away from WCS alone.

While many, including myself, believe that these decisions were made too late, and Baytex may have overpaid for said exposure, this is still a good long-term move.

In the near term, Baytex has dealt with its debt problem by refinancing its debt further out in hopes the company will be able to pay down this debt load with free cash flow moving forward.

The company also hedged oil prices, with 50% of its exposure hedged, thus reducing the risk for investors who believe the price of oil is not done falling.

Bottom line

In sum, Baytex currently trades around 3.5-times free cash flow, with an improving balance sheet and increasing exposure to light oil.

Sector-specific headwinds are unlikely to abate, but investors looking for deep value in this sector could do a lot worse than a company like Baytex.

Stay Foolish, my friends.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. energy
2. investing
3. risk

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. energy
2. investing
3. risk

Date
2025/08/16
Date Created
2020/03/07
Author
chrismacdonald