



The Brexit Just Created Massive Buying Opportunities in These 2 Stocks

Description

In the days following the U.K.'s decision to depart the E.U., the vast majority of the coverage has been on the seemingly endless stream of negatives. The IMF expects the U.K. to lose as much as 5.6% of GDP over the next couple of years, Canada can expect to lose 0.5-1% of GDP growth this year, and there is further uncertainty that other areas of the E.U. may choose a similar course of action.

For investors with a long-term horizon, however, the Brexit may be more of a gift than a liability. Markets tend to overreact to major economic events, especially as hedge funds and other short-term traders try to capitalize on the volatility.

While the Brexit is a serious event, it is important to note that North American markets have responded fairly mildly to the event (the TSX has mostly recovered its losses), and much of the severe reaction is due to the fact that markets were pricing in a "Remain" vote.

Long-term investors can use the opportunity to purchase names that should have little direct effect from the economic fallout of Brexit, but have nonetheless reacted poorly.

Baytex Energy Corp.

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) and West Texas Intermediate prices have been on a steady rally since 2016 began (with Baytex currently being around 360% above its lows set earlier in the year). WTI prices reacted poorly on the day after the results were announced, falling from over US\$50 per barrel to lows of about US\$46 and have since recovered mildly.

The Brexit will have no material impact on oil supply/demand fundamentals, which are still gradually improving. The E.U. as a whole is not the main driver of crude oil demand; in fact, analysts at **Goldman Sachs** claim that even if U.K. GDP declines by 2%, the resulting effect would only be a 16,000 bpd decline in crude (out of a global demand of over 95 million).

Nonetheless, strengthening of the U.S. dollar and general risk aversion globally will likely distract the market from improving fundamentals. And if oil does not decline substantially (some analysts are calling for a move down to US\$40), it will likely prevent oil from rallying above US\$50 for period. Either

way, this gives investors an excellent chance to buy names such as Baytex on weakness or as shares pause with the knowledge that oil prices will—almost inevitably—resume their uptrend as global breakeven prices are above current levels.

Baytex is a smart way to play this rally as higher oil prices mean Baytex's relatively high debt levels are less of an issue (Baytex's 2016 net debt is equal to 5.1 times 2016 cash flow at US\$45 per barrel, which makes it one of 13 names that are above five among 50 producers).

In addition, Baytex's higher breakeven assets (Lloydminster and Peace River) will rapidly become more profitable at price levels above US\$45 per barrel.

Barrick Gold Corp.

While nearly every asset plunged the day after the Brexit vote, gold rallied—gold prices shot up over 6% in the days following the vote, closing above US\$1,300 per ounce.

It is fairly clear that gold may be entering a new bull market, spurred by declining interest rates globally (both Canada and the U.S. are likely to delay rate hikes, and a record \$10 trillion in negative-yielding bonds now exist) and more global volatility are likely to keep gold prices rising.

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is a smart way to play this trend, since it is likely to offer even more upside than buying a gold ETF directly. Barrick is currently in the middle of a multi-year transformation plan that will see it reduce its debt to US\$5 billion from \$10 billion at the end of 2015, as well as reduce costs and establish new production to offset production that is ending.

As Barrick achieves on these goals (it has steadily been making progress towards these goals) the stock has the potential to outperform the price of gold as its valuation increases to levels near its peers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:BTE (Baytex Energy Corp.)

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