Baytex Energy Corp.: Should You Buy the Bounce?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is up 20% in just a week, and investors who were looking for an end to the pullback are wondering if this is the right time to buy.

Let's take a look at the current situation to see if Baytex is attractive today.

OPEC deal

The Organization of the Oil Exporting Countries (OPEC) announced a surprise deal last week that will potentially reduce oil output by more than 700,000 barrels per day.

The member countries have been discussing tactics to reduce supply and boost prices through much of this year, and rumours of progress on the talks have been primarily responsible for oil's rally from below US$30 per barrel in January to the current price of US$50.

A wave of optimism fizzled out at the end of June, and just as oil looked like it was going to break below US$40 again in late July, international producers started talking up a potential production freeze once again.

The spin seems to be working, but investors should be careful.

The recent meeting in Algeria concluded with a pledge by OPEC members to consider plans to cut 200,000-750,000 barrels of output per day based on the August numbers.

The group will hold its annual meeting on November 30, where markets hope the agreement will be finalized.

In the meantime, lots can happen.

First, most OPEC countries are expected to boost output ahead of the meeting. Saudi Arabia just reduced its oil price, so pundits believe the kingdom is making a push for market share ahead of the potential agreement on production caps.

The Wall Street Journal reported that Iraq has already said it might walk away from the deal if production assessments don't come in at an agreeable level. This is significant given the fact that Iraq is the group's second-largest producer.

Iran is apparently exempt from the deal, allowing it to ramp up output as much as it wants. That isn't likely to sit well with other members who could feel they are being strong-armed into an agreement.

As such, investors might want to temper their optimism on the likelihood, or sustainability, of a production freeze.

Is Baytex attractive?

If oil continues to climb, Baytex will certainly benefit, but the stock comes with risk.

The company continues to carry too much debt, and reduced access to credit facilities means Baytex has less liquidity to help it stay afloat if oil prices plunge again.

Net debt at the end of Q2 was $1.94 billion, which is a lot for a company with a market cap of $1.35 billion. At the end of June Baytex had already tapped about 45% of its available US$575,000 in credit facilities, so there isn't a lot of room for hiccups.

Falling output is also a concern. Baytex has been forced to cut its capital plan, and this is taking a toll on production. The company's Q2 output was about 70,000 barrels of oil equivalent per day (boe/d) compared to nearly 85,000 boe/d in Q2 2015.

Lower drilling activity is expected to push 2016 average output down to 67,000-69,000 boe/d.

Given the debt load, reduced liquidity, and falling production, I would avoid the stock. In fact, investors who had the courage to buy near the recent low might want to book some profits.

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1. TSX:BTE (Baytex Energy Corp.)

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