



## Baytex Energy Corp.: Could This Stock Slide Back to \$2?

### Description

Energy investors are getting a taste of what happens when stocks move on rumours and rhetoric rather than fundamentals.

What's going on?

Oil plunged below US\$30 per barrel at the beginning of 2016 as markets looked at the global supply situation and decided there was simply too much oil sloshing around to sustain higher prices.

Countries that rely on oil sales to fund their economies and placate their citizens started to get nervous and began to discuss a possible coordinated supply freeze, or even a reduction.

This served its purpose and led to an oil rally back above US\$50 per barrel by the middle of May, which helped save some ailing oil stocks, such as **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), from falling into the jaws of their creditors.

Baytex is a great example of how bad things can get when a company carries too much debt. In fewer than 18 months, the stock fell from \$48 per share to below \$2 before surging back above \$8 in early June of this year.

The rally started to run out of steam once the market clued in that countries like Saudi Arabia were still cranking out record production without any supply “freeze” agreement on the radar.

As oil slipped back toward US\$40 in July, the oil-producer marketing machine went back to work, and OPEC members even announced a “deal” at the end of September.

This “deal” was simply an agreement to discuss a possible agreement to reduce production when the group meets again at the end of November.

So, it was really no deal at all, but the market ate it up and oil rallied again, bringing the oil sector's walking wounded along with it.

Baytex had fallen back below \$5 per share by late September, but jumped 15% on the news.

### **Why should Baytex investors be concerned?**

Management is doing a good job of matching development expenditures with cash flow, but the company still has net debt of nearly \$2 billion, which is a lot for a company with a market cap of \$1.1 billion.

Access to liquidity has been restricted as a result of its new terms with lenders, and production continues to fall. Output in Q2 2016 was about 70,000 barrels of oil equivalents per day (boe/d) compared to nearly 85,000 boe/d in Q2 2015.

When the Q2 numbers came out the company said it had reduced its rig count from six to three and revised 2016 production down to 67,000-69,000 boe/d.

Baytex has to put more rigs to work to improve output, but it can't spend the money needed to do that unless oil prices move higher and stay elevated for some time.

### **Could oil plunge?**

OPEC members continue to bicker, and while the group might throw together some kind of positive statement at the November 30 meeting to keep oil from falling off a cliff in December, the likelihood of any agreement being honoured is slim.

Why?

Iraq and Iran want to be exempt from any production cuts, and it's unlikely Saudi Arabia is going to shoulder the burden for everyone. If the OPEC members were all friends, it would be one thing, but the Saudis and Iran are backing opposite sides in the wars in Syria and Yemen.

I wouldn't bet on an OPEC deal holding up, and there is a real risk the market could throw in the towel on the 2016 oil rally if that opinion becomes widespread.

### **How far could Baytex fall?**

Baytex remains volatile, and many investors in oil stocks are looking for quick gains, rather than long-term buy-and-hold opportunities. As a result, any significant drop in the price of oil could trigger a big exit out of the stock, and there is a risk that Baytex could hit the \$2 mark again if things get really ugly.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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