



Baytex Energy Corp.: Should You Buy the Bounce?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is catching a new tailwind on the hopes of an OPEC production cut.

Let's take a look at the current situation to see if this is a good time to buy the stock.

OPEC meeting

Oil has been volatile in recent weeks as investors try to decide if the Organization of the Petroleum Exporting Countries (OPEC) will be able to negotiate a deal to freeze or cut oil output.

OPEC members failed to reach an agreement in the spring, but talks have continued through the year. As a result, WTI oil has stayed more or less in a US\$45-50 range on the hopes that something will be worked out.

At the end of September, OPEC members said they had agreed to continue talks ahead of a November 30 meeting with the aim of cutting output by as much as 700,000 barrels per day based on August production.

Since then, oil has been rather volatile, falling on reports that Iraq and Iran don't want to be a part of any agreement and rising again in recent days as investors speculate if OPEC leader Saudi Arabia is determined to get a deal done.

What should investors do?

OPEC will almost certainly make some announcement November 30 that says the group has reached an agreement.

Initially, this could bump up the price of oil, but investors should be careful betting on a sustained rally.

Why?

OPEC members have had the taps wide open in recent months to maximize the departure point from

which any cuts would be negotiated. As a result, the agreement probably won't have much teeth, and that's assuming any deal is actually respected.

Iran and Iraq have made it clear they are determined to increase output, so investors should rule out any meaningful participation from the two countries.

This would leave Saudi Arabia on the hook to do the heavy lifting, but the Saudis and Iran are not exactly best buddies. In fact, the two countries are supporting opposite sides in the war in Yemen. As such, I can't see Saudi Arabia taking the hit to help Iran out.

OPEC would also need cooperation from non-member Russia for any agreement to have a significant impact on global supplies. The Russians have joined the production-freeze marketing campaign, but few analysts expect them to reduce output in any meaningful way.

What if OPEC really is serious?

Assuming OPEC announces a deal and actually sticks to the terms, any substantial move in WTI oil above US\$50 per barrel would bring significant U.S. shale production back online.

This would provide a headwind to any further price appreciation, so there is little reason to bet on a sustained oil rally in the near term.

What about Baytex?

Baytex has done a good job of staying alive through the rout, but the company is still carrying too much debt and needs stronger oil prices to boost production in a meaningful way.

Management took advantage of better prices last quarter to pay down some of the credit facilities last and free up borrowing room. Baytex also slightly increased the rig count above the Q2 and Q3 levels, so things are moving in the right direction.

If oil continues to bump along in the current trading range, Baytex should be able to keep its head above water.

However, if the market doesn't like what it sees coming out of the OPEC meeting at the end of this month, some pundits are looking for oil to plunge back below US\$40 per barrel or worse.

If that happens, highly leveraged producers such as Baytex will probably get hit hard.

Should you buy?

If you think OPEC will deliver a deal and honour it, Baytex should move significantly higher in the short term on any surge in oil prices.

At this point, however, I think that is a risky bet and would prefer to wait for evidence of a sustainable recovery before buying the stock.

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