



## Baytex Energy Corp.: Time to Buy or Run for Cover?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) has managed to stay alive through the oil rout.

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

### Treading water

Back in January, it looked like Baytex wasn't going to see the end of 2017 as a going concern.

Oil's plunge below US\$30 per barrel drove investors out of the stock, sending it below \$2 per share as they feared the high debt level was destined to bury the company.

Long-term shareholders were certainly screaming at their computer screens. Baytex had traded for \$48 per share just 18 months earlier.

A rebound in oil prices through the spring breathed some life back into the sector, and Baytex has bounced around the \$5-8 range since March.

The company's renegotiations with its lenders resulted in a reduction of available credit, so Baytex has to be careful about its spending. Management has kept capital expenses in line with operating cash flow and even paid down a good chunk of the drawn balance on the credit facilities in the third quarter.

Rig counts continue to change with market prices. Baytex cut its operating rigs from six in Q1 to three in the second quarter. Stronger oil prices have helped the situation somewhat, and Baytex says it now has four rigs up and running.

Net debt at the end of Q3 was still \$1.86 billion, which is rather high for a company with a market capitalization of \$1 billion.

Baytex has hedges in place to protect 44% of its 2017 production revenue, but the company needs oil to move higher in order to expand its development program and improve cash flow enough to start reducing the debt load.

## **Oil's outlook**

The next two days could determine the fate of Baytex and other highly leveraged producers.

Why?

OPEC is down to the wire on its efforts to seal a deal to freeze production. The organization is responsible for 40% of the world's oil supply, and the member states are desperate to see oil prices move higher.

Saudi Arabia is leading the charge, but Iran and Iraq are resisting pressure to agree to cuts or production caps.

Iran is still trying to ramp up output after the lifting of sanctions against the country, and Iraq needs more money to fight insurgents.

Without participation from these two countries, any deal is not likely to have much of an impact on the market, unless Saudi Arabia is willing to take a big hit, and non-OPEC members such as Russian agree to restrict production.

At this point, the situation doesn't look good, and oil could plunge on December 1, regardless of whether an OPEC deal is announced.

## **Should you buy Baytex?**

Baytex will certainly benefit if oil surges in the coming months, and the hedge positions will help mitigate a slight drop in prices, but the downside risk is still significant if oil tanks.

At this point, the risk for a near-term plunge probably outweighs the potential gains on a bounce, so I would stay on the sidelines until a concrete recovery in the oil market is confirmed.

## **CATEGORY**

1. Energy Stocks
2. Investing

## **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

## **PARTNER-FEEDS**

1. Msn
2. Yahoo CA

## **Category**

- 1. Energy Stocks
- 2. Investing

**Date**

2025/09/20

**Date Created**

2016/11/30

**Author**

aswalker

default watermark

default watermark