



## Baytex Energy Corp.: Can the Rally Continue?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is up 40% since the beginning of December, and investors are wondering if this is a good time to buy the stock or book some gains.

Let's take a look at the former dividend darling of the oil patch to see where it might be headed next.

### OPEC bounce

Investors can thank OPEC and a trusting market for the stellar gains over the past two weeks.

The Organization of the Petroleum Exporting Countries (OPEC) announced an agreement on November 30 that would see members reduce production. The market didn't expect the quarrelsome group to be able to pull off a deal, and oil prices surged as a result.

The rally received an additional boost in recent days as a group of non-OPEC members, led by Russia, also stated it will join the effort to drive prices higher through production cuts.

Getting Russia to participate is a huge bonus for OPEC, and the market is feeling more comfortable that the efforts will result in the removal of a global oil glut.

As a result, WTI oil is now trading at US\$53 per barrel. On November 29, it traded at US\$45.

### Effect on Baytex

Baytex has been in survival mode throughout the downturn. The company got caught with too much debt when oil crashed, leading to a meltdown in the share price from \$48 in August 2014 to as low as \$2 in January this year.

The latest surge from \$5 to \$7 per share is great news for anyone who had the courage to step in at the low levels, but long-term investors are not exactly breaking out the party hats.

Management is doing a good job of living within the company's cash flow, and higher prices will go a long way to helping pay down debt.

Baytex finished Q3 2016 with net debt of \$1.86 billion, which is still problematic, so it needs oil prices to recover enough to allow it to boost development expenditures and raise production. Without the price gains, the company will simply continue to limp along until the market recovers or a peer buys it out.

### **Should you buy today?**

Everything depends on whether or not you believe OPEC and the other oil-producing nations are going to make good on their commitments to reduce output. Many analysts remain skeptical, despite the surprise market response in recent weeks.

If you are an oil bull and think prices will drift higher through 2017, Baytex is still a bargain at the current price.

If you think the recent surge is just another head fake before the next slide back to US\$40 per barrel, it might be time to book some gains and go shopping.

My sense is the rally might be short-lived.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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