



Baytex Energy Corp.: Prepare for More Volatility

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) was on a wild ride in 2016, and this year could prove to be just as volatile.

Let's take a look at reasons why investors should be ready for big movements in the stock.

Oil market

Oil is already off to a volatile start in 2017. The price surged at the open of trading January 3 on upbeat sentiment that OPEC and Russia might actually follow through on plans to cut production.

At one point during the day, WTI was above US\$55 per barrel — the highest price since July 2015. By the time the market closed, it had dropped more than 2.5% and finished below US\$52.50.

What happened?

Dollar strength was partly responsible for the reversal, but news that Libya is planning to ramp up output also contributed to the slide. The country has already raised its production nearly 15% in the past month.

Russia is supposed to cut output by as much as 300,000 barrels per day in the first six months of 2017, but the country's December output showed no signs of a slowdown, coming in at more than 11 million barrels per day, close to the country's best output in three decades.

Pundits expect the countries that signed the OPEC pact to make an effort to curb output in the early part of the year, but many analysts are skeptical global producers will be able to resist the temptation to cheat once the market starts to drive prices higher.

The bear/bull tug-of-war is thus expected to continue, and stocks such as Baytex will likely move dramatically as a result.

Even if OPEC delivers as promised, higher prices might be held back by rising U.S. production, which

is expected to pick up speed now that WTI oil is firmly back above US\$50 per barrel.

Takeover potential

Baytex is still a wounded duck, despite the nice 35% lift the stock has received since the OPEC agreement was announced.

At the time of writing, Baytex is trading at \$6.75 per share. Last year the company figured it was worth at least \$11 per share based on oil prices that were much lower than the current level, and back when oil was US\$100 per barrel, investors eagerly shelled out \$48 to buy the stock.

So, there is a chance the market is still not giving the name the respect it deserves in the current environment.

If the industry starts to sense the recovery has legs, a wave of consolidation could be in the cards for 2017, and Baytex might quickly find itself in the sights of suitors looking to add prime assets in the Eagle Ford play.

Should you buy?

Volatility is still likely, especially in the near term, and any negative sentiment about OPEC's ability to follow through on its commitments could send WTI back toward US\$40. In that case, Baytex would probably slip back to \$5 per share.

If this scenario makes you uneasy, it would be best to look elsewhere for opportunities.

However, if you are an oil bull and can stomach some near-term roller-coaster moves, it might be worthwhile to take a small contrarian position in the stock. I suspect Baytex will eventually be bought out, and \$10 per share would probably be a reasonable starting point for bids.

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

2017/01/04

Author

aswalker

default watermark

default watermark