Baytex Energy Corp.: Is the Pullback Overdone?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is down 20% in the past month.

Let's take a look at the current situation to see if this presents an opportunity to buy the former dividend darling of the oil patch.

Oil market

Baytex and its peers received a nice boost in the first two weeks of December after OPEC launched a plan to reduce oil production.

Leading up to the agreement, the market had sold off amid concerns the quarrelsome members might not be able to get a deal in place by the November 30th deadline, but short covering and some investor optimism in the wake of the announcement helped push WTI oil prices up from about US$46 per barrel to US$54.

Recently, however, the rally appears to have stalled out.

What's going on?

Skepticism about OPEC's ability to deliver on the promised cuts is starting to creep back into the market.

The reduction of about 1.2 million barrels per day was supposed to begin January 1, but early indications suggest that global supplies remain stubbornly high, and it could take the group longer than expected to reduced output enough to have a meaningful impact.

That could mean the deal, which is only set to last until the end of June, might not deliver the desired lasting results.

Russia has also agreed to reduce output to help OPEC bring the market back into balance, but Russian production in December was close to its highest level in three decades, and preliminary reports say the country has only lowered output by about 100,000 barrels of oil per day so far.

Russia had said it would reduce production by 300,000 barrels per day through the first half of 2017.

Even if OPEC and its partners in the pact are able to meet their objectives, rising production in the United States could keep the market oversupplied.

American producers pumped out roughly 8.5 million barrels per day in June 2016. The country is now producing close to nine million.

As a result, WTI oil might have a tough time moving above US$55 per barrel in the near term, and more downside could be on the way if it looks like OPEC's efforts are falling short of expectations.

What about Baytex?

Baytex was a $48 stock before the oil rout began. At the time of writing, the shares are selling for $5.70, so there hasn't been much to cheer about for long-term holders of the name.

Traders have had a field day with Baytex over the past year, but investors should really ask themselves if this is where they want to put their money.

On the positive side, the company is living within its cash flow, and none of the debt is due immediately, so there is little risk of the company going bankrupt in the current environment.

Nonetheless, the debt remains a concern, and Baytex needs oil prices to move higher, so it can ramp up development and production to bring in enough cash flow to deleverage the balance sheet.

The latest company report indicated output is set to rise just 3-4% in 2017 based on the current spending plan, so investors shouldn't expect big things unless oil moves higher.

Should you buy now?

Oil actually looks like it wants to go lower, and if WTI drops back below US$50 per barrel, Baytex and its peers are probably going to come under additional pressure.

With that thought in mind, I would be careful trying to call a bottom in the current pullback. In fact, it might be best to look for other opportunities today.

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