



Baytex Energy Corp.: Should You Buy or Sell This Stock Today?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is under pressure again, and investors are wondering if the latest sell-off is overdone or just getting started.

Let's take a look at the current situation to see if this is an opportunity to buy or bail out.

Oil market

Oil prices received a nice boost in the first half of December as investors piled in to the market in the wake of the OPEC agreement to reduce production.

As a result, beaten-up producers such as Baytex picked up a nice tailwind, but the party was short-lived.

What's going on?

OPEC and a number of non-member producers, including Russia, agreed to begin reducing output January 1 with the hopes of cutting supplies by 1.2 million barrels per day through June 2017.

The initial surge took WTI oil back to US\$54 per barrel, but the commodity has recently come under pressure as pundits start to question OPEC's ability to make a large enough dent in output to support higher prices.

Saudi Arabia is doing its best to lead the pack, but Russia appears to be slow out of the gate. Russian output for December was near a 30-year high, and initial reports say the country has only dropped production by 100,000 barrels per day.

Russia said it would lower production by 300,000 barrels per day through June.

Even if OPEC and its partners in the pact are able to meet their targets, American producers could spoil the plan.

U.S. production was about 8.5 million barrels per day in June 2016. Current estimates peg output at

close to nine million barrels and more production is expected to come back online now that WTI oil is above US\$50 per barrel.

What about Baytex?

At the current oil price, Baytex is capable of living within its cash flow, but the company is handcuffed by its large debt position.

Baytex also had its credit facilities reduced as part of renegotiations with lenders last year, so there is less flexibility to ramp up spending.

In the latest update, Baytex says year-over-year production is expected to increase 3-4% in 2017. That's moving in the right direction, but some of its peers are boosting output by 10% or better.

Should you buy?

If oil rallies, this stock has huge upside potential. On top of that, I think Baytex will eventually be bought out, and \$10 per share is probably a reasonable price.

However, oil prices might struggle to break above the December high, and there is a real risk of further downside in the near term.

If WTI falls below US\$50, Baytex and other highly leveraged names are probably going to feel more pain.

As such, I would wait to see what happens in the next month or two before buying this stock.

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