



Baytex Energy Corp.: Double Down or Bail Out?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has given back most of its December gains, and investors are wondering if this is a chance to pick up the stock on the cheap or a sign to head for the hills.

Let's take a look at the current situation to see if Baytex deserves to be in your portfolio.

Oil volatility

Oil prices surged in early December on the back of OPEC's plan to significantly reduce oil output in 2017.

The agreement among the groups members, along with a handful of other producing nations, would see production drop 1.8 million barrels per day (b/d) through June.

The market initially believed the consortium could meet its objectives, but skepticism has started to emerge despite strong statements by OPEC and Russia that the agreements will be honoured.

WTI oil rallied from a November low of about US\$45 per barrel to US\$55 in late December. Since then, the price has drifted lower, but it still remains close to US\$53.

Bulls say OPEC and its friends are committed to hit their goals, and the result should be a balanced market through the second half of the year.

Bears believe production in the United States will continue to increase now that WTI oil is back above US\$50, and that will put a lid on any significant price gains.

The U.S. Energy Information Association (EIA) says U.S. production was below 8.6 million b/d in September 2016. Output is expected to average nine million b/d in 2017 and 9.3 million in 2018.

Why is Baytex falling?

Baytex soared from \$5 per share to above \$7 in the two weeks following the OPEC announcement.

Since then, the stock has been on the slide and is now back down to \$5.20 per share.

What gives?

Oil is only slightly off its December high, but Baytex is down about 25%. On the surface, the sell-off looks overdone, but investors have to take a closer look.

Baytex remains highly leveraged, and while none of the debt is due in the near term, the burden still weighs heavily on the stock.

At the current price, the company is able to live within its means and has even bumped up its development spending, which should result in a production increase of 3-4% in 2017.

That's better than a drop, but it isn't going to be enough to help the company make a significant dent in its debt or provide the cash flow needed to really ramp up development and push output significantly higher.

So, unless oil makes a big move to the upside, Baytex is going to just bump along, and that might be why the stock is selling off so hard.

Should you buy?

Baytex is an interesting contrarian pick below \$5 per share. Any recovery in oil would send the stock much higher, and I think the company will eventually be bought out.

Having said that, I would keep the position small, just in case WTI oil decides to dip back below US\$50. Another exodus out of the oil producers could easily push the shares back toward the 2016 low.

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

2025/07/20

Date Created

2017/01/31

Author
aswalker

default watermark

default watermark