



Baytex Energy Corp. Plunges to 12-Month Low: Time to Buy?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) continues to lose ground, and investors are wondering if the sell-off is overdone.

Let's take a look at the current situation to see if this is the right time to buy the stock.

Oil prices

Volatility has returned to the oil market after three months of relatively stable prices.

What's going on?

Oil rose through 2016 amid market hopes that OPEC members would agree to reduce production. The negotiations finally resulted in a deal at the end of November with OPEC and a handful of other countries, including Russia, agreeing to reduce output by 1.8 million barrels per day (bpd) through June 2017.

As a result, oil rallied as high as US\$55 in December, and held most of the gains through the end of February.

In the past week, however, oil has slipped back below US\$50.

Why?

The first hit came when Russia revealed its February production was relatively unchanged from the previous month. Russia has committed to reduce its output by 300,000 bpd by June. In January, the country's production dropped 100,000 bpd, but it appears the Russians have decided to put further cuts on hold.

This jolted the market as it threatens to unwind the pact.

OPEC said its members hit a compliance level of 94% in February, so there is some hope the deal might still survive, but pundits say the number is misleading, because Saudi Arabia is carrying the

burden of other OPEC countries.

In fact, one report suggests some of the members are delivering cuts closer to 50% of their commitments.

Whether or not OPEC's agreement will hold is just one part of the story; the larger issue driving oil could be rising U.S. production.

Shale producers have ramped up output in recent months, and the trend looks set to continue. If U.S. stockpiles continue to build, oil might have a tough time recovering the recent losses.

Should you buy Baytex?

At the time of writing, Baytex trades for \$4.40 per share — a price that has contrarian types licking their chops.

It's easy to see why they are so excited. Baytex is living within its cash flow, has great assets, and most of its debt isn't due for years.

If you believe oil is definitely headed back above US\$50, and will extend the gains through the end of the year, Baytex deserves to be on your buy list.

That said, the market is extremely edgy right now. Any further hint the OPEC deal might be falling apart, or another larger-than-expected stockpile build in the U.S., could quickly send WTI oil back below US\$45 per barrel.

In that situation, highly leveraged producers such as Baytex could see further downside, and a run at the 2016 low is certainly possible, especially if oil really tanks.

There's no doubt the upside potential is significant from this level, but I would wait for the pullback to run its course before buying this stock.

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