



## Baytex Energy Corp.: A Buy at \$4?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is trading at levels not seen in more than a year.

Let's take a look at the current situation to see if the stock might be getting oversold.

### Oil market

Oil rallied from below US\$30 per barrel in early 2016 to above the US\$56 mark by the end of the year. Since then, the market has given back some of the gains, especially over the past month.

What's going on?

Last year's rally began on hopes of an OPEC deal to reduce global oil supplies. Negotiations took longer than expected, but the group managed to get an agreement together by the end of November, and that helped extend the recovery.

OPEC, along with a handful of non-member countries, including Russia, began reducing production in January with an aim to lower output by 1.8 million barrels per day (bpd) through June.

Initially, investors believed the pact would hold, but concerns have started to creep into the market, and WTI oil has now slipped back to about US\$47 per barrel.

Why?

Russia has committed to reduce production by 300,000 bpd through the first six months of 2017. The country reduced output by 100,000 bpd in January, but the February report indicated no further drops.

This has investors wondering if Russia has changed its mind or is concerned other members of the agreement are not holding up their end of the bargain.

OPEC says its compliance has been above 90%, but there have been reports that Saudi Arabia is essentially carrying the load for some members who are not meeting their commitments.

## American production

Rising U.S. output is also impacting prices. American producers are taking advantage of the recovery to ramp up production, and investors are wondering if this will put a cap on any potential gains coming from OPEC cuts.

## Should you buy Baytex?

Analysts are all over the map when it comes to predictions for where oil is headed in the near term.

If you are in the bull camp and believe oil will rally through the end of the year, Baytex looks attractive today. The company owns top-quality assets, has lowered its cost structure, and is living within its cash flow at current prices.

However, Baytex is carrying significant debt, so it is vulnerable if oil falls further.

At this point, I would stay on the sidelines until the latest pullback has bottomed out. Baytex looks cheap at \$4, but risks remain, especially if WTI oil takes a run at US\$40 before bouncing back.

## CATEGORY

1. Energy Stocks
2. Investing

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aswalker

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