



Baytex Energy Corp.: The Volatility Continues

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) continues to see volatile movements as the market tries to decide which way oil is headed in the coming months.

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

Opportunity

Baytex offers big upside potential if oil prices are destined to move higher through the end of the year and beyond.

The company has retained most of its assets through the downturn, and operating costs have fallen to the point where the business can live within its cash flow at current oil prices or even lower.

Management has even found some breathing room to raise spending in 2017, which should increase production by 3-4% by the end of the year.

The company estimates its net asset value, discounted at 10%, is about \$9 per share based on a reserve value of \$3.9 billion and a bit extra for undeveloped land, net of long-term debt, asset retirement obligations, and working capital.

At the time of writing, Baytex trades for about \$4.50 per share.

Risks

Baytex is still carrying net debt of about \$1.77 billion, which is a lot for a stock with a market capitalization of just over \$1 billion.

None of the notes are due in the immediate term, but the debt load is a big reason the stock moves so much every time there is a hint of bad news in the oil market.

Oil outlook

WTI oil bottomed out below US\$30 per barrel in early 2016 and has recovered back above the US\$50 mark.

OPEC and a handful of non-member countries, including Russia, have agreed to reduce output by 1.8 million barrels per day through June. This has helped keep prices close to the current level in recent months.

Pundits have mixed opinions as to whether or not OPEC's efforts will succeed in driving oil prices higher.

Why?

Russian production cuts stalled out in February, and the market is unsure if Saudi Arabia is willing to carry the load for some OPEC members who might not reach their reduction targets.

Even if OPEC meets its objectives, rising production in the United States could prove to be a strong headwind.

Should you buy Baytex?

Contrarian investors who think oil will move higher might want to add a bit of Baytex to their portfolios on further weakness, but I wouldn't back up the truck.

Volatility in the oil market should be expected in the coming months, and any strong move in prices to the downside could hit Baytex quite hard.

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