



Baytex Energy Corp.: Should You Buy the Latest Rebound?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) jumped more than 10% after hitting a new 12-month low below \$4 per share.

Let's take a look at the current situation to see if the latest rebound could be a signal the stock has finally bottomed out.

Oil market

WTI oil recently broke below the US\$50 mark and currently trades for about US\$46, putting the price near levels not seen since July last year.

Oil bulls are scratching their heads, especially after things looked like they were finally on a roll in the wake of OPEC's production-cut deal last November.

Under the agreement, OPEC and a handful of other producers, including Russia, signed a pact to cut oil production by 1.8 million barrels per day through June 2017.

The market believed the agreement would hold, sending WTI oil above US\$56 per barrel in December.

Since then, the price of oil has been on a downward trend, except for a brief spike at the end of March and into the first part of April.

What's going on?

OPEC's compliance on the cuts has been pretty good, although some analysts believe Saudi Arabia is carrying much of the burden. Non-member Russia agreed to reduce output by 300 million barrels per day, but is taking its time in reaching the target.

In addition, American production has ramped up since last summer, and that is providing a headwind to OPEC's efforts to drive prices higher.

OPEC and its partners are hinting at plans to extend the pact beyond June, and Saudi Arabia says it

remains committed to rebalancing the oil market, which has been in a state of oversupply for at least two years.

Normally, that kind of talk puts a floor under any weakness, but it doesn't appear to be working right now.

On the demand side, concerns over Chinese economic growth have hit the broader commodity space, and high gasoline stockpiles in the United States are making the situation worse.

Should you buy Baytex?

Baytex continues to be a volatile stock.

Investors who like the name point to the valuable reserves and the fact that management has done a good job of lowering costs through the downturn.

The company also just raised expectations for production growth this year to at least 5% and is living within its cash flow.

On the downside, Baytex is carrying \$1.85 billion in net debt, which is a lot for a company with a market capitalization of \$1.1 billion.

As always, the decision to jump in now depends on your outlook for oil.

If you believe the drop below US\$50 per barrel is going to be short-lived, Baytex offers some strong upside potential. However, if you think WTI oil is going to take a run at US\$40 before bouncing back, it would be wise to stay on the sidelines.

Contrarian investors with a strong stomach might want to start nibbling on further weakness, but I would keep the position small.

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