



Baytex Energy Corp. Tanks 7%: Time to Buy?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) fell nearly 7% May 25, as investors reacted negatively to news about an OPEC extension on production cuts.

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

Volatile times

Baytex investors have been on a wild ride for nearly three years, watching the stock drop from a high of \$48 per share in 2014 to a low near \$2 in early 2016.

Since then, the stock has bounced around between \$4 and \$8 per share, rising each time the market thinks oil is about to surge, and falling again on any indication that that might not be the case.

The latest pullback to just above \$4 is a perfect example.

OPEC games

Most of the volatility centres around doubts that OPEC and a handful of other countries, including Russia, will be able to reduce output enough to trigger a meaningful increase in oil prices.

The group signed the pact at the end of November last year with a target of reducing daily production by 1.8 million barrels of oil per day through the end of June.

Investors initially cheered the news, and oil rose to US\$55 per barrel, taking beleaguered producers such as Baytex along for the ride. Baytex traded for \$5 before the November announcement and topped out two weeks later near \$7 per share.

The May 25 announcement of an extension beyond June and into 2018 should have provided support to the oil market, but WTI oil fell 5% on the news.

It's possible investors had hoped for more drastic measures.

Should you buy Baytex?

Traders are having a field day with this stock, but investors are probably reaching for the antacids.

Buying today requires a firm belief that oil is headed higher in the coming months and into next year. If you fall in that camp, the upside potential is compelling from the current level.

Baytex owns attractive assets and has done a good job of reducing costs through the downturn. At the current price, the company should be able to live within its cash flow, which is important given the large debt position.

However, if you think WTI oil is headed back to US\$40 before it stages another recovery, it might be best to stay on the sidelines. Baytex and other players with debt-heavy balance sheets would likely come under more pressure in that situation.

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