



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

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is back below \$4 per share.

Let's take look at the current situation to see if this is the right time to make a contrarian bet on the former dividend star.

### Oil outlook

OPEC and a group of non-member countries, including Russia, recently agreed to extend their pact to reduce oil production by 1.8 million barrels per day.

The original agreement, signed at the end of November last year, was set to expire at the end of June 2017. Now, the group says it will continue to curb output through the first quarter of 2018.

Oil prices surged after the first deal was announced with WTI hitting a high above US\$56 per barrel in late December and early January. Since then, the price has been on a downward trend.

Pundits thought the announcement of the supply-cut extension would provide some support to the oil market, but prices are still falling.

At the time of writing, WTI oil is US\$48.30 per barrel.

What's going on?

OPEC and Russia are largely on track with the reduction commitments, but pundits believe Saudi Arabia is carrying the load for some of the OPEC members, and others who are exempt from the deal, such as Libya, are ramping up output.

At the same time, American producers have increased production to take advantage US\$50 oil, and that is providing a headwind to any further appreciation in crude prices.

### Value play?

Baytex believes its assets are worth about \$11 per share, so there is some strong upside potential if the calculation is accurate and oil is set to recover.

Management has done a good job of reducing costs and increased its capital plan enough to generate 5-6% of organic production growth in 2017.

At the end of Q1 2017, the company had five rigs drilling in the Eagle Ford asset base.

On the downside, the balance sheet remains the largest risk for investors.

Baytex finished Q1 with net debt of \$1.85 billion. None of the notes are due in the near term, but the debt is a heavy burden, especially now that the company has a market capitalization of less than \$900 million.

At the time of writing, Baytex trades for \$3.86 per share.

### **What should investors do?**

Investors have to decide where they think oil is headed in the coming months.

If you believe a rebound toward \$60 per barrel is in the cards, Baytex looks like an attractive contrarian play today.

However, if you are in the camp that thinks oil will re-test US\$40 in the near term, it might be best to stay on the sidelines until a recovery is firmly in place.

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1. Energy Stocks
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