



## Baytex Energy Corp.: A Contrarian Bet at \$3 Per Share?

### Description

**Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) is now down to a price of \$3 per share, and contrarian investors are wondering if the pullback has simply gone too far.

Let's take a look at the beleaguered oil producer to see if it deserves to be on your speculative buy list today.

### Oil outlook

WTI oil continues to fall amid fears that OPEC will not be successful in its efforts to cut output and drive prices higher. In fact, all of the gains oil enjoyed as a result of last November's landmark OPEC announcement have been wiped out.

What's going on?

OPEC and a handful of other countries, including Russia, agreed late last year to cut output by 1.8 million barrels per day through the first half of 2017.

Markets initially believed the agreement would deliver the expected results, and investors pushed WTI oil prices above US\$55 as a result.

In March, reports came out that Russia's output cuts had stalled out at 100 million barrels per day, which was short of the 300 million the country had committed to reduce.

That started a price slide in the oil market, despite Russia's claims it is back on track.

Doubts are also emerging about OPEC's ability to hit its own reduction targets, as analysts try to figure out if Saudi Arabia is carrying the burden for some other partners; if so, how much, and how long will they be able to do it?

OPEC and its partners recently announced an extension to the pact through the first quarter of 2018. In the past year, rhetoric of this kind helped to prop up oil prices, but that hasn't been the case this time.

Since the late-May announcement of the extension, WTI oil has fallen from about US\$50 per barrel to US\$42.50.

### **U.S. impact**

Lack of confidence in OPEC is one part of the story. The more important aspect could be rising production in the United States.

American shale production has been on the rebound, sending U.S. output up 10% in the past year.

Even if OPEC and its partners can meet their reduction targets, many analysts think rising production in the United States and a few other countries, such as Libya and Nigeria, could put a cap on any potential price gains coming from OPEC's efforts.

### **Should you buy Baytex?**

Baytex finished Q1 2017 with net debt of \$1.85 billion. At the time of writing, the company has a market value of \$673 million, so Baytex is going to come under more pressure if oil continues to slide.

That said, there is some nice upside potential if you believe oil has bottomed out. Baytex has avoided a major sell-off of assets, which means the company still has significant value sitting in the resource holdings. Baytex has calculated its net asset value to be above \$10 per share.

If oil can move back above US\$50 in the near term, investors who buy today could see some big gains in the near term.

At this point, however, oil looks like it might be setting up for a plunge below US\$40, so I would stay on the sidelines until the pullback has clearly run its course.

If things get worse in the oil market, Baytex could retest the 2016 low near \$2 per share.

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