



Oil Surges: Time to Buy Baytex Energy Corp.?

Description

Oil is staging a modest recovery, and this has contrarian investors wondering if it is finally time to start a position in some of the sector's walking wounded, including **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE).

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

Oil volatility

WTI oil slipped to US\$42 per barrel on June 21, but it has rebounded back above US\$47 in the past two weeks.

What's going on?

Oil rallied from below US\$30 per barrel in early 2016 to above US\$55 at the beginning of this year. Most of that strength came on expectations for, and the eventual realization of, an OPEC deal to reduce production.

Under the agreement announced last November, OPEC and a handful of other producers, including Russia, set out to reduce supplies by 1.8 million barrels per day through June 2017.

The market initially cheered the pact, and WTI oil held above US\$50 per barrel for the first part of this year, but confidence began to fade when Russia's cuts stalled out in February, and pundits began to wonder if Saudi Arabia was shouldering the burden for some OPEC members who might not be hitting their targets.

In addition, U.S. production has risen about 10% in the past year, providing a strong headwind to any potential price gains coming from the OPEC cuts.

OPEC tried to talk up the market again in late May when it extended the pact through the first quarter of next year.

In the past, such rhetoric provided support, but this time it didn't work, and oil continued to slide until hitting its recent low.

Why the rebound?

A drop in the value of the U.S. dollar might be part of the reason for the recent recovery. Another reason could be speculation that American production growth slowed down as oil slipped back below US\$45 per barrel.

Profit taking by short sellers could also be a factor after the huge dip.

Should you buy Baytex?

Baytex traded for \$48 per share in the summer of 2014. At the time of writing, the stock is selling for \$3.15.

The company owns attractive assets and has big upside potential if oil can extend its recovery.

That said, Baytex reported a net debt position of \$1.85 billion at the end of Q1 2017, which can be problematic for a company with a market capitalization of \$710 million.

The company needs higher oil prices to generate the cash flow needed to boost the capital plan. This is primary way to increase output and bring in enough funds to put a serious dent in the debt load.

As such, to buy this stock, you have to believe the latest bounce in oil is the start of a longer-term recovery. If you are in that camp and can handle the volatility, it might be worthwhile to start nibbling.

I'm not convinced oil has bottomed, so I would stay on the sidelines for the time being and wait for a confirmation of an extended upward trend.

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