



## Could Baytex Energy Corp. Bounce to \$10?

### Description

Contrarian investors are searching for troubled stocks that might offer significant upside potential.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to see if it deserves to be on your buy list.

### Oil outlook

WTI oil is down from US\$55 per barrel at the beginning of 2017 to below US\$45 amid investors concerns that OPEC's deal to reduce supplies won't deliver the intended hike in oil prices.

What's the scoop?

Last November, OPEC and a handful of other nations, including Russia, agreed to reduce oil production by 1.8 million barrels of oil per day through June 2017.

The group announced an extension at the end of May that runs through the first quarter of next year.

The market initially cheered the pact, but faith in compliance began to slip in March, and despite reassurances from the main players that they are committed to meet the goal, oil prices continue to fall.

OPEC's output actually rose last month due to production increases from Libya and Nigeria, which are exempt from the deal.

The International Energy Agency (IEA) just reported that OPEC's compliance with cuts slipped to 78% in June from 95% in May.

The IEA also said the oil market could stay oversupplied longer than previously expected.

On the positive side, demand growth in China, Germany, and the United States remains strong.

Analysts are all over the map when it comes to price predictions. Some foresee a slump below US\$40 in the near term, while others predict a rally above US\$60.

Both views could turn out to be right.

### **What about Baytex?**

Baytex had net debt of \$1.9 billion at the end of May, which is a lot for a company with a current market capitalization of about \$730 million.

While none of the notes are due in the immediate term, the burden limits the company's ability to access funds to increase drilling and boost cash flow.

At current prices, Baytex isn't able to generate enough revenue to invest the capital needed to expand its capital plan and significantly raise its output.

Management has done a good job of reducing costs, and 2017 exit production is expected to rise compared to 2016. Baytex is maintaining its 2017 production guidance of 68,000-70,000 barrels per day.

Baytex continues to own a portfolio of attractive assets, and the upside potential for the stock is significant if oil prices recover meaningfully.

Remember, Baytex traded for \$48 per share in 2014.

### **Is \$10 per share possible?**

Oil would probably have to move back to US\$60 per barrel for Baytex to hit \$10 per share.

In the immediate term, that looks unlikely.

### **Should you buy?**

At \$3 per share, Baytex might be worth a shot if you are an oil bull and think the market is ready to recover.

At this point, I would keep any bets small, just in case oil dips below the US\$40 mark before bouncing back.

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1. Energy Stocks
2. Investing

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