



Oil Hits 6-Week High: Time to Buy Baytex Energy Corp.?

Description

Oil is slowly clawing back some of its losses, and investors are wondering if this is the right time to step in and buy the energy sector's troubled stocks.

Let's take a look at the current situation and see if **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) might be an interesting contrarian pick.

Oil rebound

WTI oil closed above US\$47 per barrel on July 19 — the highest it has been in six weeks.

What's going on?

Oil received a boost late last year from OPEC's late November deal to reduce production by 1.8 million per day through the end of June. The commodity rallied through December and into the beginning of 2017, topping out at US\$57 in early January.

Under the agreement, OPEC and a handful of other producers, including Russia, signed up to restrict output in an effort to bring the market back into balance and push prices higher.

Investors initially cheered the plan, but confidence in the group's ability to hit the targets began to wane in March, and oil subsequently gave up all its post-deal gains.

In an effort to talk up the market, the group announced an extension in May that takes the agreement through the first quarter of 2018.

Such rhetoric used to be sufficient to support prices, but it didn't work this time, and oil continued to slide, hitting US\$43 on June 21.

What's driving the recovery?

OPEC reported an increase in production for June as a result of higher output from Nigeria and Libya, which are exempt from the pact.

You would think that would drive prices lower, but other factors are at play.

First of all, the U.S. dollar is falling in value against a basket of key currencies. Since oil is priced in American dollars, it is becoming cheaper for other countries to buy, and that might be part of the story.

On top of that, demand in key markets such as Germany, China, and the U.S. remains robust.

Will prices move higher?

The Energy Information Administration just released a report that shows U.S. production hitting 9.43 million barrels per day, marking the highest output level since July 2015.

This is a surprise, considering many analysts thought oil's plunge below US\$50 per barrel would curb U.S. production growth.

So, the headwinds remain.

Should you buy Baytex?

Baytex was a \$48 stock when oil traded for US\$100 per barrel. At the time of writing, investors can pick it up for \$3.20 per share.

The company is carrying significant debt, but it also owns attractive assets that have the potential to generate significant cash flow if oil recovers.

Contrarian investors see huge upside potential in the stock, and they are right if oil has bottomed.

If you tend to be in the bull camp and think oil will recover through the end of the year, it might be worthwhile to start nibbling on Baytex, but I would keep any position small at this point.

The recent surge could turn out to be another head fake.

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