



Baytex Energy Corp. Rallied 5.3% Yesterday: Why?

Description

The price of oil closed above \$51 per barrel yesterday, back to levels last seen in the spring, amid rising expectations that oil above \$50 is something we can count on.

This comes as crude output is being cut by OPEC, and energy companies are exercising more capital discipline. And with inventories falling, the market appears to be showing signs of rebalancing.

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is a high-risk name in the energy space due to the fact that it remains heavily indebted. With a debt-to-capital ratio of 48% and \$25 million in interest expenses every quarter, this company is very vulnerable to weakness in the oil price, as it does not have the flexibility to withstand lower oil prices for very long.

So, what does this mean for Baytex?

Well, the company's excessive debt has resulted in its share price falling to \$3.78 from highs of more than \$40 back in 2014.

But, as always, with higher risk, there is higher potential reward if things go well. And yesterday's 5.3% rally will be just the beginning of a great run should oil prices continue to rise.

Oil at \$50 per barrel means that Baytex is free cash flow neutral. Oil at \$55 per barrel translates into incremental free cash flow of \$75 million. And oil at \$65 per barrel means incremental free cash flow of \$175 million.

Operationally, Baytex is actually achieving momentum with production of 72,811 boe/d in the second quarter of 2017 — a 5% increase from the first quarter.

Oil services names such as **Ensign Energy Services Inc.** ([TSX:ESI](#)) and **Trican Well Service Ltd.** ([TSX:TCW](#)) also rallied yesterday off of the strength in oil prices, soaring 7.45% and 4.6%, respectively.

Although this is a higher-risk area, the oil services names typically outperform at the beginning of a cycle. So, if this is indeed where we are at right now, these names would be good additions to one's

portfolio for some extra torque.

With a dividend yield of 6.39%, and a second quarter 2017 that beat expectations, Ensign is benefiting from increasing activity in Canada and strengthening day rates.

Trican is benefiting from higher day rates and increasing activity levels in response to higher commodity prices.

In summary, I believe that the fact that these higher-risk and early cycle names rallied yesterday means that the market is becoming more and more convinced that the energy sector has much to look forward to in the form of higher prices, greater capital discipline, and higher returns.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:ESI (Ensign Energy Services Inc.)
3. TSX:TCW (Trican Well Service Ltd.)

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