



Baytex Energy Corp. Soars 7.7%: Should You Buy?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) rose nearly 7.7% on Oct. 27, and investors are wondering if this is finally the start of a sustainable rally.

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

Oil recovery

WTI oil recently jumped to an eight-month high of US\$53.90. Brent crude, the global oil price, pierced the psychologically important US\$60 mark, hitting a level not seen since early July 2015.

What's going on?

Saudi Arabia just came out with more talk of extending a pact signed last year, which would see OPEC and a handful of partner countries, including Russia, reduce oil supplies by 1.8 million barrels per day (b/d).

The group signed an original deal at the end of November 2016 which was scheduled to end in June. The agreement was extended through March next year, and it appears Saudi Arabia and Russia are both keen to see it run beyond that time frame.

Conflict in Iraq

Additional support is coming from conflict in Iraq, which is OPEC's second-largest producer.

The Kurdish region of the country recently declared independence, leading to a military intervention by the Iraqi government. The area is an important oil-producing region in the country, and investors are concerned exports could be restricted or cut off.

Compliance issues and U.S. headwinds

Traders got excited and pushed oil prices higher when the OPEC deal came out last year, but the enthusiasm waned in the first half of 2017, as it became clear some of the players were not meeting

their reduction targets.

In addition, rising production in the United States is proving to be a headwind to higher oil prices.

The U.S. Energy Information Administration says American oil production is currently 9.5 million b/d and continues to rise. In fact, 2018 average output is targeted at 9.84 million b/d, which would be the highest since 1970, when U.S. output averaged 9.6 million b/d.

At this point, investors should expect volatility to continue in the oil market, although the current trend appears to be positive.

Should you buy Baytex?

Baytex remains volatile due to its large debt position, so you have to be an [oil bull](#) to buy the stock.

If you fall in that camp, the upside potential is certainly attractive.

Baytex owns quality assets and has done a good job of reducing costs through the downturn. Production is rising and any continued improvement in oil prices should boost margins enough to enable the company to start making progress on debt reduction.

Baytex has said its net asset value is above \$9 per share, so investors are looking at some significant gains from the current price of \$3.23, assuming you agree with the company's assessment.

I wouldn't back up the truck, but contrarian investors with a positive oil view might want to consider a small position in the stock.

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