



Why Baytex Energy Corp. Is Rallying Almost 10% Today

Description

Is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) finally taking care of its backyard, so investors can have confidence in the company again?

To answer this question, let's first look at the macro environment.

Investors are no strangers to the volatility that has been alive and well in the energy market.

One day, the International Energy Agency (IEA) raised its demand expectations, and then, in what seems like the next day, they were taking it back, saying that demand wasn't actually as strong as expected.

So, what do investors do with this?

Well I suggest, as I always do in matters of investing, that we [keep our eye on the long term](#).

While oil demand is expected to increase at a decreasing rate, according to the agency, [global energy needs will expand](#) by 30% from now until the year 2040.

Those are big numbers, right?

And on the supply side, we are seeing inventories decline, as oil production out of Mexico, the U.S., and the North Sea has been below what was expected, and unexpected outages in Iraq, Algeria, Nigeria, and Venezuela hit the market.

On the flip side, we are seeing the opposite in the U.S., with shale oil production rising so swiftly that the IEA is forecasting the U.S. will become an oil exporter by the mid-2020s.

We must complete this analysis with a mention of geopolitical risk. From Iran to Iraq to Saudi Arabia, geopolitical risks are real. The geopolitical risk premium reflects a real possibility that a supply disruption will hit the market.

So, why is Baytex rallying today?

The company has a very high sensitivity to oil prices, and oil is still trading above \$55 per barrel.

Baytex has been slowly reducing its debt, and it has been performing better operationally, with management producing in the upper end of its guidance and reducing its operating cost guidance by 5% to \$10.50 per barrels of equivalent oil.

And while oil has come off its highs of late, again, it still trades above \$55 per barrel.

At \$50 per barrel, Baytex would be free cash flow neutral. At \$55 per barrel, Baytex would generate incremental free cash flow of \$75 million. And oil at \$65 per barrel would mean incremental free cash flow of \$175 million.

And with tensions intensifying between Saudi Arabia and Iran, we cannot discount the possibility of a supply disruption.

At the end of the day, with Baytex achieving close to 10% production growth, reducing costs, and generating free cash flow with oil trading above \$50, the company is improving its position every day and is increasingly generating shareholder value, and I think the market is increasingly becoming more comfortable with the name because of these factors.

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