Crude Oil Quickly Closing in on $60: Time to Buy Baytex Energy Corp.?

Description

Heightened geopolitical risk continues to drive oil prices higher. Headlines highlighting the risk to oil supply in the world abound, with continuing tensions in Saudi Arabia, Iran, and Iraq, to name a few.

Reduced supply here at home also gives the commodity a lift. With oil inventories falling by 1.9 million barrels for the week ended November 17, 2017, and the shutdown of **TransCanada Corporation's** Keystone pipeline following a spill last week, we are seeing a tightening of the market that has prices rallying.

Looking ahead, the restart of the pipeline is still uncertain, so this pressure will last a while.

Western Texas Intermediate (WTI) oil has risen from lows of below $30 in January 2016 to current levels of just shy of $58. With this, we are hearing analysts increase their oil price forecasts, and we can expect estimates for energy companies to rise.

So, in this scenario, it is definitely time to buy **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE).

With oil-weighted production standing at 80% of production, Baytex is extremely well positioned to benefit from rising oil prices.

Baytex is actually achieving operational momentum, with production of 69,310 boe/d in the third quarter of 2017 — a 3.2% increase from the same quarter last year.

Baytex has a very high sensitivity to oil prices. With oil at $50 per barrel, Baytex is free cash flow neutral; $55 per barrel means incremental free cash flow of $75 million; and oil at $65 per barrel means incremental free cash flow of $175 million. The company is increasingly well positioned to improve its balance sheet and, one day, directly return cash to shareholders.

A big issue with Baytex has been its heavily indebted balance sheet, but the fact is that the company has been slowly reducing its debt and 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.

With a 7% reduction in its debt relative to last year, we can see that Baytex is making good progress, and as oil prices remain at these levels, the shares will continue to rally, as investors will shift focus off the debt load and on to the cash flow the company is able to generate from its assets.

In the first nine months of 2017, funds from operations per share increased 8.5% to $1.02.

The stock has declined 40% year to date, but the upside is just as big, as the company gets its balance sheet in order and continues to churn out the cash flow.

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Date
2025/07/02
Date Created
2017/11/24
Author
karenjennifer