Supply Disruptions Send Oil Higher: Time to Buy Baytex Energy Corp.?

Description

Crude oil is trading at almost $64 again after the Energy Information Administration (EIA) released weekly oil inventory numbers, which showed that inventories fell 1.6 million barrels. Expectations were calling for a rise of 1.8 million barrels. This drop was as a result of continued supply discipline as well as continued strong demand.

Risks and uncertainties related to the price of oil going forward are supply disruptions due to geopolitical tensions and the pace at which U.S. producers increase oil production, as new, cheaper shale production keeps growing.

The potential supply disruptions that could occur in politically unstable countries such as Libya, Venezuela, and Nigeria, to name a few, has come to fruition again, as security issues have resulted in Libya's El Feel oilfield being evacuated, taking 70,000 barrels per day of oil production offline.

The risk remains of further pressure on the supply side.

Against this backdrop, is it time to buy **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE)? Or what about energy services names, which are seeing strong increases in activity, revenues, and profitability?

Baytex will be reporting its results on March 6, and with oil prices having rallied so sharply and remaining above $55 for the last few months of 2017, Baytex should report strong results.

The stock is still trading lower compared to one year ago (29% lower), despite the price of oil having rallied approximately 20% since then. While Baytex may have had a good reason for this lacklustre performance, a higher oil price solves many of its issues.

Baytex, as we know, has been hit by the fact that the company was and is still carrying too much debt. But, while at sub-$30 oil, this is a huge problem, one that puts the company as a going concern at risk, at $60 oil, the story is totally different.

Baytex has big leverage to the oil price and, accordingly, the stock has big upside.

It has been slowly reducing its debt, taking it down from $2.1 billion to the current $1.7 billion.

Trican Well Service Ltd. (TSX:TCW) also has big upside as a result of strengthened oil prices.

Last week, the company reported a 186% increase in revenue in 2017, and adjusted operating income of $183.3 million compared to a loss of $37.4 million in 2016. For the fourth quarter, revenue increased 144%, and operating income was $47 million.

These results reflect a sharp increase in activity levels, pricing, and the acquisition of Canyon.

Investors do not seem to really believe that higher oil prices are here to stay, but the risk of supply disruptions make higher oil prices a more likely scenario. Load up on the two stocks mentioned in this article for leverage.

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1. Energy Stocks
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TICKERS GLOBAL

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2. TSX:TCW (Trican Well Service Ltd.)

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Date
2025/06/29
Date Created
2018/02/27
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