

## Baytex's Big Gamble on the Eagle Ford Shale

### Description

Canadian domiciled intermediate heavy oil producer **Baytex** ([TSX:BTE](#))(NYSE:BTE) has made a big bet on the U.S. shale oil boom and the prolific Eagle Ford shale in south Texas.

It has taken this bet by announcing its offer to acquire Australian junior oil explorer and producer **Aurora Oil & Gas** (TSX:AEF), which operates solely in the Eagle Ford for AU\$4.10 per share. This values Aurora at a 54% premium to its share price before the deal was announced.

As part of the deal, Baytex will also assume Aurora's debt of around \$744 million, giving the transaction a total value of \$2.6 billion or 1.5 times Aurora's current enterprise-value.

### What does the acquisition mean for Baytex?

This acquisition is accretive for Baytex and will be a transformative event for the company, providing it with a source of U.S.-based high quality light tight crude.

Typically this crude trades close to the price of West Texas Intermediate and is not subject to the same price differentials affecting Canadian light crude (Edmonton Par) or Canadian heavy crude (West Canadian Select). At the end of January 2014, both were trading at significant discounts to West Texas Intermediate of \$16 and \$33 per barrel respectively.

As part of the deal Baytex will assume ownership of one of the most impressive and prolific acreages in the Eagle Ford, Aurora's 22,200 net contiguous acres in prolific Sugarkane Field, sitting in the heart of the oil rich Eagle Ford shale. The acquisition will provide Baytex with a diversified production base and improve its production mix, reducing its dependence on Canadian heavy oil as a means of generating revenue.

The improvement in Baytex's production mix can be seen when we compare the makeup of its production mix pre- and post-acquisition. Light oil production in particular will jump significantly, going from 11% to 21% of total hydrocarbons produced as we can see.

### [BTE Production Make-up 080214](#)

The acquisition will also boost Baytex's oil reserves by around 167 million barrels and boost production by around 24,000 gross barrels per day of high margin light crude. Allowing Baytex to generate significantly more revenue and boost its margin per barrel of crude and profitability.

As such Baytex management expects that fund flow from operations will grow by 17% as a result of the acquisition, ultimately boosting its bottom line and eventually causing earnings per share to jump significantly.

### What is the reward for Baytex shareholders?

The increased funds flow will leave Baytex well positioned to increase its monthly dividend, and already the company has acknowledged this. Baytex has committed to boosting its monthly dividend

by 9% to 24 cents per share if the acquisition proceeds. This will see Baytex shareholders rewarded with an attractive dividend yield of just over 7%.

### **Foolish bottom line**

This acquisition is a win-win for Baytex and its shareholders. It allows it to diversify its asset and production base, while reducing its dependence on lower margin, high cost Canadian heavy oil. This should see funds flow from operations and margins per barrel grow significantly, boosting its profitability.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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