

## Top 4 Reasons to Like Baytex Energy

### Description

**Baytex Energy** ([TSX:BTE](#)) is a high quality, highly profitable heavy oil producer that has a significant inventory of low-cost crude oil projects. The recently announced **Aurora Oil & Gas** acquisition is an opportunistic move that takes the company to another level, making it more diversified with greater opportunities for growth.

#### A profitable, high quality company

Baytex is very profitable, with an operating margin of 34.3% in the last quarter and 21% in the trailing 12 months, and an ROE of 13%.

Management has been proactive in acquiring Aurora Oil & Gas in the attractive Eagle Ford area. Management has also been proactive in increasing its hedge book at a time when oil prices are historically high — 74% of its hedge book is hedged at an oil price of \$98.

#### Low-cost production replacement

In its latest reserve report, Baytex once again reported industry leading metrics that speaks to the longevity, stability and efficiency of the company: 234% of production was replaced through organic mean; 2013 finding, development and acquisition costs (FD&A costs) were \$18.28/boe; and the three-year average was just over \$15.65. The company's operating netback was \$33/boe, with a recycle ratio (i.e., value created for every dollar invested in drilling) of 1.8x for 2013 and 2.1x for the three-year average. The reserve life index (RLI) went from 14 years to 14.3 years.

#### Entry into the attractive Eagle Ford play

Earlier this year, Baytex announced the acquisition of Aurora Oil & Gas, a light oil producer in the liquids-rich Eagle Ford area of South Texas. The acquisition adds 25,000 barrels of oil equivalent (boe) per day with room for low risk production growth and reserve additions through well downspacing and improving completion techniques as well as production from new zones. The Eagle Ford is an area with very attractive capital efficiencies and low risk production, which brings with it strong cash flows.

This \$2.6 billion acquisition was financed in part with a \$1.5 billion equity offering, which closed on February 24. The offering was made at a price of \$38.90.

This shift away from heavy oil diversifies Baytex's production mix after a year that has seen the company struggle with unattractive heavy oil differentials due to transportation bottlenecks. The Eagle Ford area is near the U.S. Gulf Coast and refinery complex, and therefore there are no transportation bottleneck issues related to this production.

Consistent with its strategy of providing investors with growth and income, Baytex will institute a 9% increase in its monthly dividend to \$0.24 per share after the acquisition closes.

### **Foolish bottom line**

While the acquisition will bring Baytex's debt-to-cash flow ratio and its all-in payout ratio higher, the company will be updating guidance upon closing of the deal in May, and the company has indicated that this acquisition will be accretive to its cash flow from operations.

This acquisition has positioned Baytex as a more diversified producer, with heavy oil now accounting for just over 50% of production, down from 75%, and has strengthened its production growth profile going forward.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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