



## This Oil Producer Is a Must-Have Stock for Growth Investors

### Description

Growth-oriented plays in the patch are becoming more appealing for investors because of improving fundamentals, higher crude prices, narrowing price differentials between Canadian crude blends and West Texas Intermediate, and a positive long-term outlook for crude.

One company that stands out as a solid growth play in the patch is intermediate oil producer **Baytex Energy** ([TSX: BTE](#))(NYSE: BTE). Over the last year, its share price has appreciated by a healthy 20%, making it appear expensive with an enterprise value of 11 times EBITDA and a price-per-flowing barrel of \$144,000. However, due to a range of reasons I will explain below, there is still plenty of growth available for value-hungry investors.

### Why Baytex is a must-have growth stock

Earlier this year, Baytex made a play for Australian oil explorer and producer Aurora Oil & Gas, and the acquisition has just successfully closed for a total cost of \$2.6 billion. This acquisition is a game-changer for Baytex, giving it prime liquid-rich acreage in the heart of the prolific Eagle Ford play in Texas.

A key positive attribute of the transaction for Baytex is that it boosts the company's higher-margin light oil reserves and production, thereby reducing its dependence on lower-margin heavy crude. Post-acquisition, higher-margin light oil now makes up 21% of its production mix, compared to 11% previously. This equates to an additional 24,000 barrels of light crude being produced daily, and additional light oil reserves of 167 million barrels.

This allows Baytex to take firm advantage of the higher price of crude and the lower discount at which Edmonton Par trades at to WTI compared to West Canada Select. At the end of May 2014, Edmonton Par was trading at an 8% discount to WTI, whereas West Canada Select was trading at a 23% discount.

This highlights how the acquisition, and thus the significant increase in light and medium crude production along with natural gas liquids, will boost the profitability of the oil company's operations, its funds flow, and eventually its bottom line.

For the first quarter of 2014, the profitability of Baytex's operations was relatively low, with the company reporting an operating netback — a key measure of operational profitability — of only \$36.55 per barrel. This was lower than **Whitecap Resources'** ([TSX: WCP](#)) \$45.80 and **Lightstream Resources'** (TSX: LTS) \$56.11 per barrel.

These companies have superior netbacks because their production is heavily weighted to light oil, emphasizing the importance of this acquisition for Baytex. Furthermore, with the acquisition now successfully completed, I expect to see Baytex's operating netback continue to improve throughout 2014.

This improved profitability will have a direct and positive impact on the company's financial performance, and it is estimated that it will cause funds flow from operations to grow a healthy 17%. This is an important outcome for an intermediate oil producer like Baytex. It allows the company to reduce its reliance upon debt as a means of financing the capital expenditure required to develop its assets and expand oil reserves so as to ensure the sustainability of its production.

### **A healthy dividend boost gives it a juicy yield that is among the best in the patch**

With the successful closing of this transaction, Baytex has boosted its monthly dividend by 9%, from \$0.22 per share to \$0.24 per share, giving it a juicy yield of just over 6%. This yield is one of the best in the patch, and superior to Whitecap's 4.7% and Lightstream's 5.8%, as well as being significantly higher than any of Canada's integrated oil majors.

Such a high yield will continue to see loyal investors rewarded as Baytex completes the acquisition of Aurora and continues to grow its core assets and production. When coupled with stronger fundamentals, Baytex is well set to grow its financial performance and continue unlocking value for investors.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:WCP (Whitecap Resources Inc.)

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