



Baytex Energy Corp.: Buy, Sell, or Hold?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is up more than 10% in the past week and investors are wondering if a new rally is in the works.

Let's take a look at the current situation to see if you should add Baytex to your portfolio right now.

Fall from grace

Baytex and its shareholders have been on a wild ride in the past year. Last February the company made a big splash by announcing a \$2.8 billion deal to purchase Aurora Oil and Gas Ltd. The acquisition secured high-quality production and development assets located in the hot Eagle Ford shale play.

Investors loved the deal. At the time of the June closing, oil prices were above \$100 per barrel and Baytex hiked the dividend by 9%.

As oil prices started to slide through the summer months, shareholders remained unfazed and the stock still traded above \$48 per share at the end of August.

Four months later, the world had completely changed.

The plunge in crude prices forced Baytex to cut the annualized dividend per share from \$2.88 to \$1.20. The company also slashed capital spending for 2015 by 40%. Shareholders watched in disbelief as the stock price dropped below \$15.

Righting the ship

Since then, Baytex has continued to make adjustments to ensure it is capable of weathering the storm.

The company recently renegotiated the terms on its debt to avoid breaching its lending covenants, and successfully raised \$500 million a bought deal equity issue.

Baytex had \$2.7 billion in total debt as of December 31. Most of the long-term debt isn't due until 2020

or later.

The latest 2015 budget guidance is for capital spending of \$500 million to \$575 million. Given the reduction in spending and the improved balance sheet, Baxtex appears to have avoided a near-term cash crunch.

If oil prices begin to recover by the end of the year, Baytex should be able to maintain its dividend. Otherwise, investors could see another reduction or outright cut to the payout.

Vulnerable to vultures

Baytex owns a very attractive portfolio of assets. The company currently has a market cap of about \$3.25 billion. When you add in the debt, the value of the company comes in at about \$6 billion, which is an easy acquisition to make for any of the big producers.

Should you buy?

Betting on Baytex requires a belief that oil prices are near a bottom and will recover meaningfully in the next year. At the moment, there is little indication of a pending rebound. The distribution is probably safe in the near term and I wouldn't sell the stock at this point. However, new investors should wade in carefully, as the oil market still looks vulnerable to further weakness.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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