



Could Baytex Energy Corp. Hit \$35?

Description

If you bought **Batex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) when it fell to \$16, you're a happy camper right now.

That would have taken some serious guts and hindsight is always 20/20, but investors who have been sitting on the sidelines still might get a chance to participate in the rally.

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

Balance sheet stability

Baytex made some drastic cuts in December when it realized the rout in oil prices could be a long-term phenomenon. The company reduced the annualized dividend from \$2.88 per share to \$1.20 and slashed its 2015 capital-spending plan by 40%.

That was just the beginning of the process. Baytex entered into negotiations with lenders and recently announced new terms on its debt that will help the company avoid breaching its lending covenants. Baytex also raised \$632.5 million in gross proceeds from a successful bought-deal financing.

The company's latest budget guidance for 2015 targets capital spending of \$500-575 million. With the spending cuts and the funds raised through the stock issue, the company has avoided a cash crunch and investors should be a bit more comfortable kicking the tires.

Ongoing concerns

At the end of December Baytex had \$2.7 billion in total debt on the books. Most of the long-term debt isn't due until 2020 or later, which gives the company some time to wait for a rebound in oil prices.

The current dividend should be safe for the moment, but oil prices will have to stay at current levels or move higher through the rest of 2015 to ensure the distribution remains in place. If oil takes another swan dive toward \$40 and stays there, the distribution is probably toast.

Takeout target

Baytex owns some fantastic assets and it wouldn't be a surprise if one of the giants takes a run at the company. The current market cap is just under \$4 billion. Once you add in all the debt and a nice premium, the whole works could go for as little as \$10 billion, especially if oil prices continue to remain weak.

Should you buy?

Baytex is still a risky bet considering the ongoing volatility in oil markets. If oil prices have actually bottomed and continue to drift higher through the end of the year, Baytex will move significantly to the upside and the stock could easily head back above \$30 per share.

Any rumblings of a possible suitor entering the picture would obviously put a strong tailwind behind the shares, but investors shouldn't buy the stock if looking for a buyout.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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