



Should You Buy, Sell, or Hold Baytex Energy Corp. Today?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE), one of the largest producers of crude oil and natural gas in North America, announced second-quarter earnings results on the morning of July 30, and its stock responded by falling over 3% in the trading session that followed. Let's break down the results to determine if we should consider using this weakness to initiate long-term positions, or if we should avoid the stock for the time being and revisit it at a later date.

Lower commodity prices lead to weak results

Here's a summary of Baytex's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	(\$0.13)	\$0.27
Petroleum & Natural Gas Sales	\$345.43 million	\$476.40 million

Source: Baytex Energy Corp.

In the second quarter of fiscal 2015, Baytex reported a net loss of \$26.96 million, or \$0.13 per share, compared to a net profit of \$36.8 million, or \$0.27 per share, in the same quarter a year ago, as its petroleum and natural gas sales decreased 27.5% to \$345.43 million.

These weak results can be attributed to the steep decline in commodity prices, which led to the company's average realized price of heavy oil decreasing 43.7% to \$44.59 per barrel, its average realized price of light oil and condensate decreasing 37.5% to \$65.11 per barrel, its average realized price of natural gas liquids decreasing 59.3% to \$15.78 per barrel, and its average realized price of natural gas decreasing 36.8% to \$3.06 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Total production increased 26.7% to 84,812 barrels of oil equivalents per day
2. Production of heavy oil decreased 22.9% to 35,439 barrels per day
3. Production of light oil and condensate increased 162.5% to 25,899 barrels per day
4. Production of natural gas liquids increased 232.6% to 8,232 barrels per day
5. Production of natural gas increased 77.1% to 91.46 million cubic feet per day
6. Operating netback after financial derivatives decreased 32.8% to \$25.85 per barrel of oil equivalent
7. Funds from operations decreased 4.5% to \$158.05 million
8. Total oil and natural gas capital expenditures decreased 96.5% to \$107.18 million
9. Total number of common shares outstanding increased 24.6% to 206.19 million
10. Long-term debt increased 12.3% to \$1.49 billion

Will Baytex's shares recover?

It was a rough quarter for Baytex, so I think the post-earnings drop in its stock was warranted. I also think the stock could face continued weakness in the weeks and months ahead because commodity prices remain under pressure, which will lead to further headwinds in the third and fourth quarters.

The only legitimate reason to own the stock today is for its monthly dividend of \$0.10 per share, which gives its stock a whopping 10% yield, but I do not think this rate is sustainable given its decreased amount of funds from operations. The company already reduced its dividend by 58.3% in December 2014 as a result of lower commodity prices and its weak financial performance, and I think it could announce another reduction in the very near future.

With all of the information above in mind, I think Foolish investors should avoid Baytex Energy today, and only revisit the idea of an investment when commodity prices recover and the company gets back on the path to profitability.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/21

Date Created

2015/07/31

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