



Inside Baytex Energy Corp.'s Awful Week

Description

Last week is one that most investors would probably like to forget as world markets were rocked by fears of a global slowdown. Oil stocks in particular were hit hard as the price of crude tumbled into the low \$40s as supplies continue to pile up. However, few stocks were as hard hit as **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), which plunged more than 34% last week.

[BTE chart](#) Page not found or type unknown

Here's what sent Baytex Energy's stock into a free fall and what investors can expect going forward.

The crude reality continues to set in

Last week's free fall in Baytex Energy was ignited by the more than 4% plunge in the price of crude oil on Wednesday. The culprit here was the much unexpected build in crude oil inventories, according to a report by the U.S. Energy Information Administration. That report showed that crude oil in storage ballooned by 2.6 million barrels, which shocked the oil market as analysts expected inventories to fall by at least 800,000 barrels over the prior week.

This expectation was based on the assumption that American refineries would continue to draw down crude oil supplies after pulling 1.7 million barrels of crude from storage the prior week. Instead, what the data now suggests is that overall oil supplies are much higher than demand, suggesting the oil market is still well oversupplied.

Because 82% of Baytex Energy's production is crude oil, it is very sensitive to the oil price. That's why last week's plunge, which resulted in crude ending 6.2% lower for the week, hit the company so hard. Worse yet, there is a growing consensus that the oil price will be lower for longer, and it is that prospect that is forcing oil companies to make hard choices as they seek ways to weather the storm.

Making the hard choices

As a result of the recent re-correction in oil prices, Baytex Energy announced on Friday morning that it was taking action by making several difficult cuts, which caused its stock to sell off again. Among the

most difficult cuts for investors to swallow was the company's decision to indefinitely suspend its previously generous dividend payment. However, the company also announced that it was lowering the upper end of its 2015 production guidance range and reducing its 2016 capex budget by 25% year over year in a move that would keep production flat.

These moves signal that Baytex Energy is digging in for what it believes to be a long oil-price downturn. In commenting on the moves CEO James Bowzer said in the press release:

It is imperative that we position our company to withstand the current low commodity price environment. We are committed to taking the difficult but necessary steps to ensure the long-term sustainability of our business. By recalibrating our business model in response to the current pricing environment, we believe we are preserving shareholder value in these extraordinary times and positioning our company for greater success when oil prices recover.

In other words, the company is focused first on survival, so that it will be around when prices do improve. Further, in preserving cash the company will keep its debt metrics in check, giving it greater financial flexibility so that it can capture opportunities when prices do improve. In addition to that, by halting all growth spending, the company is, in a sense, holding on to what it believes are resources that will be even more valuable in the future.

Investor takeaway

Baytex Energy made several tough decisions last week. However, these moves were made to ensure that the company survives the downturn. Clearly, this is the prudent move as it appears that the oil price will indeed stay lower for longer. That said, when prices do improve the company will be in a strong position to deliver returns as well as quickly reinstate its dividend.

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1. TSX:BTE (Baytex Energy Corp.)

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