



## Baytex Energy Corp.: Has the Stock Bottomed?

### Description

It has been a brutal 12 months for **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), but contrarian investors are looking at the sell-off and wondering if the worst is finally over. Let's take a look at the current situation to see if Baytex deserves a spot in your portfolio.

### Tough year

Last year at this time Baytex traded for \$48 and paid an annualized dividend of \$2.88 per share. Today, the stock is selling for \$7 and the dividend no longer exists. Back in June 2014 Baytex completed the game-changing takeover of Aurora Oil & Gas that gave Baytex a large stake in the promising Eagle Ford shale play.

Management was so excited about the prospects that they actually increased the dividend by 9%. The deal also loaded up the balance sheet with debt and that quickly became a problem once oil prices began to slide. By December, the dividend had already been cut by 60% and the stock was down to \$15. Investors thought that was the bottom and cheered a rise back up to \$24 per share in February as management renegotiated terms with lenders and raised capital to stabilize the balance sheet.

The company actually delivered Q2 results that weren't too bad. Funds from operations came in at \$158 million and that was enough to cover capital expenditures and the reduced dividend. Baytex also finished Q2 with \$1 billion in undrawn bank facilities.

Then things went bad again. WTI oil prices plummeted from \$60 to under \$40 per barrel, and Baytex decided to cancel the dividend completely.

In the August 20 news release, management said the drastic deterioration in oil prices means the company will reduce capital expenditures in 2016 by 25%. At the time of the announcement, WTI spot prices were \$41 per barrel, down 29% from the Q2 average of \$58. The price for Western Canadian Select dropped even more, trading at US\$25 per barrel compared to the Q2 average of US\$46.

### Outlook for 2016 and beyond

Baytex is suspending all of its heavy oil drilling operations in Canada and is focusing its efforts on the Eagle Ford properties. The company expects to finish 2015 with senior debt of \$1.8 billion, putting the senior debt to bank EBITDA ratio at 3.1 times, which is still within the 4.5 times allowed under the covenants. Capital expenditures for 2016 are expected to be \$300-400 million.

### **Should you buy Baytex?**

The recent rebound in oil prices lit a fire under the stock, sending it up more than 30% in just three days. If energy prices have finally bottomed, there could be some serious upside for Baytex, but the market remains volatile.

Another thing to consider is the fact that Baytex owns great assets. With the enterprise value now below \$3.5 billion, the company could be a takeover target. Having said that, I wouldn't buy the stock on those hopes. If you think oil has seen its worst days, there could be a case for starting a small position at the current price, but the risks remain high.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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