



Will Baytex Energy Corp. Survive the Oil Rout?

Description

This past year has been a tough one for **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), and shareholders are wondering if the pain will ever end.

Let's take a look at the current situation to see if you should buy, hold, or sell Baytex right now.

Look out below

It's amazing how fast fortunes can change.

One year ago Baytex traded for more than \$43 per share and paid investors one of the top dividends in the patch. Today, the stock is selling for less than \$6 and the dividend has disappeared.

In June 2014, Baytex closed its game-changing acquisition of Aurora Oil & Gas. At the time, management and the market were all smiles as Baytex had secured its stronghold in the red hot Eagle Ford shale play. The company was so excited about the new production and cash flow prospects it hiked the monthly dividend by 9% to \$0.24 per share.

By mid-December the world had changed completely. Baytex slashed the payout by 60% and cut capital expenditures to avoid a cash crunch.

To their credit, the management team moved swiftly to renegotiate covenants with lenders and raised capital at an opportune time. Without those efforts, Baytex might not have been around right now.

During the second quarter of this year, things actually looked a lot better. WTI oil prices recovered to \$60 per barrel, and Baytex actually brought in enough cash flow to cover the reduced capex as well as the dividend.

Then the other shoe dropped.

WTI now trades at \$47 per barrel and new forecasts are coming out that suggest the price could fall as low as \$20.

In August, Baytex announced new measures to help ride out the slump. The company is halting all drilling activity on its Canadian properties and will focus exclusively on the Eagle Ford play. This will bring capital expenditures down another 25% to \$300-400 million for 2016.

Senior debt at the end of 2015 is expected to be about \$1.8 billion, which would put the senior debt-to-bank EBITDA ratio at 3.1 times. This is important for investors because it means the company should still have some breathing room to get it through the first part of next year. The current lending covenants allow for a ratio of up to 4.5 times.

If oil really is headed for \$20, Baytex is going to be in trouble.

Banks are starting to get nervous about loan losses in the energy sector and companies are going to find the lenders less open to renegotiating lending arrangements in the coming months.

Should you buy, hold, or sell Baytex?

At this point, existing shareholders might as well hold on in the hopes of an oil recovery or even a buyout. Baytex owns an attractive portfolio of assets and the stock could become a takeover target.

For new investors, the energy market remains very volatile and there are other opportunities in the sector that look more attractive and carry much less risk.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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Author

aswalker

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