Will Baytex Energy Corp. Survive the Current Crisis?

Description

On August 21, shares in **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) dropped over 10% after management provided a key update to investors. Since then, shares have fallen by another 10% and currently trade for under $4.

Before hitting all-time lows, Baytex Energy stock was performing quite well. Since its IPO in 2006, shares in the company rose over 400% to its highs in 2014. In the past 12 months, however, investors have lost nearly 90%.

Here are the most important things you need to know today if you're invested or are contemplating an investment in Baytex Energy.

In survival mode

Right now, management is 100% focused on making sure the company survives the current oil bear market. With less than $1 million in cash and over $1.2 billion in debt, survival isn't ensured.

To reel back spending, Baytex Energy has been forced to gut its future. Exploration and development expenditures for 2015 will come in at $500 million, on the low end of its original guidance of $500-575 million. In 2016, spending will drop to a multi-year low of only $350-400 million.

Baytex Energy also completely cut its dividend, which it had been paying consistently for over four years. Before the cut, shares were yielding over 10%, making any dividend bottom-pickers in the oil sector feel cautious. Management said that the dividend will only be considered for reinstatement "when commodity prices recover to a supportive level."

Can it survive?

On the surface, it looks like Baytex Energy's assets will be enough to generate sustainable levels of cash flow. For 2015, the company is guiding for 84-86 thousand barrels a day of production. With 283 million in proven reserves, it should have at least a decade of reliable production.

Over the long-term, however, Baytex Energy likely needs oil prices to stay above $50 just to support its spending needs to keep the business going. A dividend reinstatement won't even be discussed until oil has outpaced $60 for a prolonged period of time.

Like most oil producers, Baytex Energy shouldn't be considered as an investment option if you believe oil will remain depressed.

It still has some emergency levers to pull

Baytex Energy should end the year with roughly $1.8 billion in debt. This results in a debt-to-EBITDA ratio of 3.1 times, which is fairly concerning. Still, the company does have some cash infusion options that are still on the table.

It still has a revolving credit line from a Canadian bank worth $1 billion as well as a $200 million credit line from a U.S. institution. In total, the company has about $975 million in undrawn financing from these two credit lines. While it would prefer not to use them, both are available to Baytex Energy through 2019.

Just another distressed oil stock

In total, there doesn't seem to be anything unique going for Baytex Energy. An investment in the company is simply a bet on whether or not it survives. As with most oil producers who took on too much debt, trouble will ensue if oil remains below $50. If you want to invest in distressed oil names, there are likely better options out there that have been thrown out with the bath water.

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