



Will Baytex Energy Corp. Get Taken Out?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) continues to slide, and investors are wondering what the end game has in store for this fallen angel of the energy patch.

Let's take a look at the company to see if there is any hope of a white knight coming to the rescue.

Fall from grace

It has been a brutal 12 months for Baytex shareholders. At this time last year, the oil rout was still in its early stages, and many market watchers thought the pullback would be short-lived.

Baytex still paid a monthly dividend of \$0.24 per share and the stock traded for more than \$40.

Today, the dividend is history, and investors who bought the stock a year ago are looking at a 90% haircut. That hurts.

It's actually quite scary how fast things can change in the market and how powerless management can be, even when it makes all the right moves to keep the company solvent.

Last December Baytex was one of the first companies in the sector to slash its dividend and reduce capital expenditures. By the first part of 2015, management had renegotiated its lending covenants, and then convinced the market to buy more than \$630 million in new shares for \$17.35 per share.

The timing of the issue was perfect because oil prices were on the rise again and the market believed the rout was over.

The second quarter was actually a pretty good one. Supported by \$60 oil, Baytex actually brought in enough cash to cover its capital expenditures and the reduced dividend. Not many companies in the sector managed to do that.

Unfortunately, oil prices have fallen sharply since the end of June, and Baytex is in trouble again.

In August the company suspended the dividend and reduced capital expenditures once more in an

effort weather the ongoing turbulence in the market. At the time, Baytex said it planned to spend just \$300-400 million next year on development and is focusing primarily on its Eagle Ford assets.

Management expects to exit 2015 with senior debt of \$1.8 billion, which would put its "senior debt-to-Bank EBITDA ratio at 3.1 times, compared to a maximum permitted ratio of 4.5 times to the end of 2016."

The company assumes it will still have \$975 million available in undrawn credit facilities.

If it can stick to that plan, Baytex might hold on for a while longer, but there is no guarantee with the market being so volatile.

At \$4.10 per share, Baytex has a market cap of about \$850 million, so a buyer could potentially get the entire company for less than \$3 billion right now. Given the quality of the assets, it wouldn't be a surprise to see one of the industry's strong players swoop in and take Baytex out.

Should you buy Baytex?

At this point, the stock looks very risky, even after the latest plunge. Betting on a takeout premium is not wise right now, and there is no evidence to suggest the oil market has bottomed. At this point, there are better places to invest your money.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Author

aswalker

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