



Could Baytex Energy Corp. Bounce Back to \$10?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) continues its battle against falling oil prices and a market determined to sell anything connected to the energy space.

Let's take a look at the current situation to see if there is any hope for a rebound.

Tough times

The management team at Baytex must wake up every morning hoping to discover the events of the past year were just a bad dream. Unfortunately, that's not the case and the nightmare keeps getting worse.

Here's the story:

In June 2014, Baytex celebrated the closing of its \$2.8 billion acquisition of Aurora Oil & Gas Ltd. and increased its dividend by 9% to \$2.88 per share.

At the time, it all made sense. WTI oil trades above \$100 per barrel and the new assets looked like they would boost cash flow enough to justify the increase in the payout. The fact that the debt position had suddenly ballooned didn't really matter.

Six months later, the world had completely changed. Oil prices crashed and Baytex had to scramble to avoid a cash crunch. Investors saw the stock plunge from about \$50 to \$15, and management reduced its capital program and slashed the dividend by 60%.

To their credit, the leadership team moved early and quickly. Loan covenants were renegotiated and the company managed to raise \$630 million in capital through a successful stock issue.

WTI oil prices recovered to \$60 in the second quarter and Baytex actually managed to bring in enough cash flow to cover both the dividend and the reduced capital expenditure program.

It actually looked like the company was finally on the mend, but the good news didn't last. Oil prices fell

out of bed again in July and it has been all downhill ever since.

In August, the company suspended the dividend altogether and lowered the capex program ever more in hopes of surviving the current downdraft.

Is a big rally possible?

At the time of writing, the stock is trading for close to \$4 per share and the market value is below \$800 million. In the August update, the company said it expects to exit 2015 with about \$1.8 billion in senior debt. Right now, a buyer could potentially scoop up Baytex for as little as \$3 billion.

Baytex owns very attractive assets in the Eagle Ford play that are certainly on the radar of some healthier peers. If oil prices start to recover in the next few months, the stock should get a nice tailwind. If the vultures then decide it is time to make a move, any rumours of a buyout could push the stock even higher and a surge back to \$10 could be possible.

However, that's all speculation, and the current environment doesn't suggest any of these events are in the cards.

At this point, it would be best to look elsewhere for opportunities.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/21

Date Created

2015/10/02

Author

aswalker

default watermark