



What Makes Baytex Energy Corp. Ripe for a Takeover?

Description

Now that **Suncor Energy Inc.** has launched a \$4.3 billion offer for **Canadian Oil Sands Ltd.**, investors generally think a wave of consolidation is coming in Canada's energy patch.

So, which company will get bought out next? One commonly cited candidate is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), and its stock price has responded in kind. In the one week following Suncor's bid, Baytex's shares jumped by more than 40%.

What makes Baytex such an ideal takeover target?

At the end of last year, Baytex had over \$2.3 billion in monetary debt, and this has made the fall in energy prices particularly hard. It's an all too familiar story in the sector.

The company has responded forcefully. The dividend was cut by over 50% back in December and was eliminated entirely in August. Capital spending and operating expenses have been slashed as well. Baytex even raised another \$500 million in equity back in April.

But Baytex has made little headway in reducing its debt load. The company hopes to exit 2015 with \$1.8-1.9 billion in debt, not much less than it had at the end of 2014. And because Baytex's stock price has fallen so far, its debt load far exceeds the company's market value (even after the recent surge in its stock price).

This is a big problem, especially in this environment. Remember, oil prices have caused drilling rates to plummet, meaning that now is a great time to ramp up capital spending. But Baytex cannot afford to do so, meaning it cannot fully exploit its assets' potential.

Thus Baytex would be far more valuable if it were in the hands of another producer. And larger companies like Suncor have, without a doubt, taken notice.

How likely will this happen?

Baytex may be ripe for a takeover, but there is a major obstacle to any transaction taking place: a lack

of buyers.

Put simply, there are a lack of companies with the firepower to make large-scale acquisitions in the energy sector. Suncor is one such company, but it will likely be occupied with its Canadian Oil Sands bid.

That makes **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) the strongest possibility. Like Suncor, Imperial has a very strong balance sheet and is looking to take advantage of low oil prices. Rumour has it the company is looking for heavy oil assets, which should make Baytex's properties at Peace River and Lloydminster very appealing.

Should you buy Baytex?

Before you jump in, remember this is a very dangerous game to play. There are a lot of companies in Baytex's position, and only a handful of them will get bought out. Others will likely perish. So, unless you're confident in the future of oil prices, or you're only investing a very small amount of money, you should probably avoid stocks like Baytex altogether.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:IMO (Imperial Oil Limited)

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Date

2025/08/22

Date Created

2015/10/12

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