



Penn West Petroleum Ltd. and Baytex Energy Corp. Are Ripe for a Takeout

Description

In previous articles, I have argued that both **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) would make ideal takeover targets.

Plenty of others agree. The two oil producers are often cited as companies that could get bought out, both by analysts and by the media. Furthermore, both stocks took off in the days following **Suncor Energy Inc.**'s bid for **Canadian Oil Sands Ltd.** Clearly, investors are looking to profit from the next merger.

With that in mind, what makes these companies great takeover targets?

A comparison

	Penn West Baytex	
Market capitalization	\$750 million	\$1.3 billion
Net debt	\$1.8 billion	\$1.8 billion
Enterprise value	\$2.5 billion	\$3.1 billion
Production (boe/d)	81,000	85,000
EV/Production	\$31,000	\$36,000

The last line in this table is particularly important, because it shows how expensive the companies are per unit of production. Based on this metric, Penn West appears slightly cheaper, which shouldn't be surprising given its history and leverage. The company's debt is also maturing sooner than Baytex's, which may also contribute to the cheaper price.

Baytex's economics are also slightly better. To illustrate, Penn West's core Cardium and Viking wells earn roughly a 20% rate of return at US\$50 oil. Given the same oil price, Baytex could earn well over 30% at Eagle Ford and Lloydminster. The company's Eagle Ford assets are particularly efficient—they can earn a 10% return even at US\$35 oil.

Why both would make excellent targets

By practically any standard, both Penn West and Baytex are very cheap. Suncor's bid for COS equaled over \$60,000 per daily barrel of production. For **MEG Energy Corp.** and **Crescent Point Energy Corp.**, that number is close to \$80,000. And if one looks at the cost of developing new projects, such as **Imperial Oil Limited's** Kearl mine, the number can get even higher.

Thus a large energy producer could score a nice bargain by acquiring either of these two companies, even after paying a fat premium. Better yet, the acquirer should be able to achieve some modest synergies, and/or renegotiate the target company's debt. Either move would make an acquisition even more favourable.

Are these companies buys?

Buying any energy company today is extremely risky. Lacklustre Chinese demand, soon-to-come Iranian exports, and cost cutting from American producers should keep a lid on oil prices for a long time.

But if you're looking for some oil exposure without investing very much of your portfolio, then you should add both to your portfolio.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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1. TSX:BTE (Baytex Energy Corp.)

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