



Is Baytex Energy Corp. Worth a Shot?

Description

The rout in the energy market has really hammered Canadian oil and gas companies, and some of the former dividend favourites have been hit the hardest.

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) used to be one of the sector's dividend darlings, but the world has changed dramatically in the past year and investors who follow the name are still looking at the magnitude of the slide and shaking their heads in disbelief.

A 90% haircut

Baytex has lost more than 90% of its valuation in the past 14 months. That's a scary slide, and it shows just how brutal the oil rout has been for companies that loaded up their balance sheets with debt.

Back in June 2014, Baytex closed its \$2.8 billion acquisition of Aurora Oil & Gas Limited to much fanfare as investors cheered a 9% dividend increase. The management team patted itself on the back for securing prime property in the hot Eagle Ford shale play.

The jubilation was warranted at the time as WTI oil traded for \$100 per barrel.

Unfortunately, the deal was done at the peak of the market, and by the end of the year, oil was below \$50, and Baytex had to cut the dividend and slash capital expenses to avoid a cash crunch.

Management moved quickly and the steep cuts coupled with a renegotiation of terms with lenders set the company up well for its successful capital raise in the spring.

For a few months, it looked like things were back on track. Oil prices recovered above \$60 and Baytex actually brought in enough cash in Q2 to cover the reduced capital expenditures and the dividend.

The respite was short lived.

Oil fell again through the back half of the summer, and Baytex was forced to abandon the dividend altogether.

Now, the stock is trading for about \$5 per share, and investors are wondering if there is any hope of a rebound.

Takeover talk

With WTI oil prices now retesting the \$40 mark, the sector's walking wounded are being sized up for potential takeovers.

Baytex certainly has attractive assets. The company just took a massive write-down of \$493.2 million on its Eagle Ford assets, so you can see how much potential value there is if oil prices eventually return to their previous levels.

Baytex's long-term debt at the end of September was about \$1.6 billion. If you add in the current market capitalization of about \$1 billion, you get a rough valuation of about \$2.6 billion for the company. Even with a nice premium to entice a smooth deal, any of the larger players could easily pick up Baytex with little trouble.

Should you buy?

At some point, Baytex will probably get bought out, but buying the stock on the hopes of a big takeover gain is risky. The shares are already very cheap, but no suitor has publicly stepped up to make an offer.

I would avoid the name until it becomes clear that oil has bottomed.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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