



Baytex Energy Corp.: Will it Survive?

Description

Shares of **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) are falling again after rising 50% off the late September lows, and investors are wondering if this is the beginning of the end.

Tough times

The entire energy sector is struggling with low oil and gas prices, but Baytex truly demonstrates how bad the situation has become in such a short period of time.

The company has lost more than 90% of its value in the past 15 months, and investors who used to hold the stock as a top dividend pick are looking at fallout in utter disbelief.

Producers with strong balance sheets are navigating the storm reasonably well, but the ones who loaded up on debt to make big acquisitions are now at risk of disappearing.

Baytex closed its \$2.8 billion acquisition of Aurora Oil & Gas Limited just before oil started to slide. The deal was supposed to be a game changer, launching Baytex into the middle of the hot Eagle Ford shale play.

When the deal closed management raised the already juicy dividend 9% and the stock traded for about \$48 per share. Today the dividend is gone and the shares are back below \$4.50.

Will Baytex make it?

Management has done a good job of keeping the company solvent. Capital expenditures and the dividend were cut as soon as it looked like the rout was going to have some legs. The company also renegotiated lending covenants with the banks and found buyers for new stock at a very strong price.

When WTI oil moved back to \$60 it looked like Baytex was going to make it, but the subsequent plunge has the market concerned that the company won't be able to hold on.

Baytex had long-term debt of \$1.6 billion at the end of Q3. The company doesn't have any major notes

due in the near term, so there isn't an impending risk of a default, and available credit lines stood at \$1.05 billion as of September 30. This means the company should have enough liquidity to keep it afloat while it waits for oil prices to improve.

However, cash flow is still the main concern.

The company generated funds from operation of \$105.1 million in the third quarter. Capital expenditures were \$126 million for the quarter, so cash flow isn't covering the cost of keeping the oil flowing.

The company has some breathing room, but oil has to recover sooner rather than later if Baytex is going to continue as an independent company.

Should you bet on Baytex?

Oil prices continue to fall and there is little indication that a quick turnaround is in the cards. WTI oil averaged \$46.43 per barrel during the third quarter. The current price is about \$38 per barrel, so Baytex's cash flow is likely to come up short again in Q4.

Some pundits believe Baytex will be bought out. The company certainly holds an attractive portfolio of assets, and the larger players with strong balance sheets could easily buy the company.

If you have a high tolerance for risk, there could be an opportunity at this level, but betting on a takeover premium or a spike in energy prices is a gutsy call to make right now. There are safer ways to play an oil recovery.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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