



Did the U.S. Government Just Save Baytex Energy Corp.?

Description

On Tuesday night, U.S. lawmakers reached an agreement on a spending and tax legislation bill that would avert a U.S. government shutdown. It includes various measures such as reviving some expired tax breaks and preventing certain disclosure rules for publicly traded companies making political contributions.

The legislation also included something much more interesting for investors in the energy sector. After 40 years, Congress is now poised to lift the ban on U.S. crude oil exports.

This news didn't immediately help the price of WTI crude, which fell more than 4% in early trading on Wednesday morning to back under \$36 per barrel. Brent crude, which is the standard for the rest of the world, also headed lower, falling 3.4%. Brent's current price is still a hair higher than WTI, just slightly above \$37.

This is obviously good news for American producers. Having more customers for your product is a good thing, especially when there's a glut of it domestically. Some European and Asian countries get the bulk of their oil imports from countries like Russia, and they'd like the option to buy from their American allies.

One energy producer helped by this news is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), which has a majority of its production from the Eagle Ford field in Texas. Since Eagle Ford is so close to export terminals in Texas and Louisiana, it makes sense that Baytex's production may find a home somewhere else in the world.

But with WTI so low, is this development too little, too late to save the heavily indebted Baytex?

Long-term potential of Eagle Ford

Baytex got the timing very wrong when it closed its acquisition of Aurora Oil & Gas back in June 2014; it spent US\$1.8 billion for the company focused on Eagle Ford. That's pretty much when oil peaked.

But at the same time, it got some great assets. Thanks to recent cost cuts, the company estimates that

all it needs to break even from Eagle Ford is \$35 per barrel in WTI. That compares favourably to its assets in northern Alberta, which need between \$45 and \$50 per barrel to break even.

This translates to higher netbacks. So far in 2015, netbacks from Eagle Ford are almost twice as high as they are from the two Alberta projects, coming in at \$22.74 compared to \$11.78 per barrel.

Eagle Ford also comes with attractive reserves. Baytex has approximately 1.2 billion barrels of oil (or oil equivalent) in the ground that are recoverable using current drilling techniques, and 75% of the reserves are located in Eagle Ford.

The point is this: there's still substantial long-term value in Eagle Ford. It might not be an asset worth getting excited about at \$35 oil, but once crude heads back to more normal values, Baytex will be making handsome profits from its newest prize.

Can it survive?

One of the big issues with Baytex is the company's bloated debt load. It doesn't matter how attractive Eagle Ford is if the company can't survive this low price rout.

Fortunately, Baytex's debt situation is under control. The company does owe \$1.76 billion in long-term debt, but it doesn't have to pay any of it back until 2021. It also projects a senior debt-to-EBITDA ratio of approximately 3.0 at the end of the year compared with a permitted ratio of 5.25.

Baytex also made some smart moves to shore up its balance sheet earlier in the year, including issuing more than \$600 million in new shares as well as eliminating its once-generous \$0.10 per share monthly dividend. The dividend cut alone will save it \$300 million annually.

In short, it doesn't look like Baytex is on the cusp of bankruptcy, even with crude so low.

Baytex is poised to be a winner once crude recovers. Nobody knows exactly when that will be, so shares are priced like sub-\$40 oil is the new normal. If you're a believer that oil will head much higher in the next few years, I think you'll be satisfied with buying Baytex at today's levels.

CATEGORY

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TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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