



## Baytex Energy Corp. Is up 43% in the Last 2 days: Why?

### Description

Given that the stock has declined 47% year-to-date, the fact that it is up 43% in the last two days doesn't mean much for most investors. But for those investors who got in two days ago, it obviously means a lot. Has **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) hit its lows, and is this a good time to invest in it?

### Keeping our eyes on the long term

Although the oil-price environment has been extremely volatile, difficult to predict, and pretty much brutal, one thing hasn't changed: Baytex is a high-quality oil producer with low-cost production and an experienced management team. And, as a bonus, when the price environment is right the company has a significant inventory of low-cost crude oil projects.

So the question for investors is, Can Baytex make it through this extremely difficult time and come out even better on the other side? Let's look at this question and see what answers we come up with.

### Cost reductions bring about better efficiencies

Over the years Baytex has always been a low-cost producer relative to its peers. In 2015 cost reductions to the tune of \$135 million strengthened the company. Drilling costs have been reduced 27% at Eagle Ford and 20% in Canada.

Operating costs have been reduced 15% versus the original budget and general and administrative costs have been reduced 18% versus the budget. In general, the company needs US\$35 oil in order to break even on a cash basis.

### Good standing with lenders puts Baytex in a favourable position

It is all fine and dandy to say we should keep our eyes on the long term, but if a company can't survive the short term, then that is of no use to us. At this point, the company has a credit facility of \$1.06 billion, of which only 25% is drawn, and it has a debt-to-total-capitalization ratio of 39%.

Importantly, the debt-maturity schedule looks like this: \$737 million comes due in 2020, \$300 million comes due in 2021, and \$536 million comes due in 2024. Assuming that the oil market recovers in the form of increasing prices and/or decreasing costs, these should be better years for Baytex and the maturities wouldn't be a problem.

The banks have placed a debt-to-EBITDA covenant of a maximum of 5.25 times on Baytex until the end of 2017. At this time, this ratio stands at three times. If oil remains at or under \$30 per barrel, the company would be in breach of this covenant after two quarters. Management has said that at that point they could secure their line of credit, which would give them more breathing room.

### **In summary**

It's a very stressful time for Baytex and for investors who choose to invest at this time. But in the grand scheme of things, Baytex looks to be relatively well positioned versus its peers.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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