



Can a Massive Debt Load Bring Down Baytex Energy Corp.?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) has had an incredible fall with shares down almost 90% in the past year alone. Once a \$5 billion company, the firm's market cap has shrunk to just \$550 million. The recent collapse in oil is completely to blame. Profits, which topped \$100 million in the third quarter of last year, have turned into a loss of nearly \$400 million last quarter. Earnings for 2015 are expected to end up at negative \$3.92 a share compared to a stock price of only \$2.60.

While tumbling oil prices have created the current crisis, it may be another factor that ultimately brings down the company.

Debt, debt, debt

The company exited 2015 with about \$1.9 billion in debt, nearly four times that of its market cap. While the company likes to point out that it only has a senior debt ratio of only three times EBITDA (compared to its maximum permitted ratio of 5.25 times), things are likely to change quickly.

Currently, Baytex has less than \$200 thousand in cash. With more losses on the way, additional borrowing is a must to remain solvent. While the company does have a \$1.06 billion outstanding credit facility, it's already 25% drawn, meaning Baytex can only withdraw another \$850 million. With capital spending expected to be \$325-400 million this year, the company's debt covenants may be stretched to their breaking point.

Expiring hedges are yet another headwind

As discussed, Baytex had a terrible 2015, losing an estimated \$820 million. That loss would have been a lot worse if the company had to sell all of its production at market prices. Around 20% of its volumes had fixed hedges of about \$76 a barrel in 2015. So while oil prices tumbled to under \$30 a barrel, Baytex could sell one-fifth of its production at a 100%+ premium.

In 2016, fixed hedges fall to only 16% of volumes with an average price of only \$64 a barrel. This means that even if oil prices stabilize at current levels, Baytex may feel an increasing amount of pain. The company's top three properties produce at breakeven levels of \$35-47 a barrel. Things need to

improve quickly for Baytex to stop hemorrhaging cash.

What's next?

Baytex management has done all it can to stem the tide. At most of its properties in 2015 capital costs dropped by over 20%. Additionally, the company cut its dividend and refocused capital spending towards only core properties with the cheapest production. Still, Baytex likely won't have enough excess cash in 2016 to reduce its debt. If lower oil prices persist, the company will most likely break its debt covenants in 2017, possibly triggering a default.

While its banks have proven flexible thus far, an investment in Baytex is both a bet on higher oil prices and on its ability to maneuver its crushing debt load. If you're an energy bull, you're better off finding a company that can reliably capitalize on a rebound. Baytex, meanwhile, may be at the mercy of its lenders.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

Category

1. Energy Stocks
2. Investing

Date

2025/08/26

Date Created

2016/01/27

Author

rvanzo

default watermark