3 Baytex Energy Corp. Numbers You Don't Want to Miss

Description

Struggling Canadian oil producer **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) recently reported stronger-than-anticipated first-quarter results. In fact, the company actually broke even this quarter when analysts were expecting it to post a steep loss. Here are the three numbers that enabled it to defy the odds and report a better-than-expected quarter despite very weak oil prices.

1. Eagle Ford shale production

One of the keys to Baytex Energy's strong showing was production out of its Eagle Ford shale assets. During the quarter, the company produced 41,067 barrels of oil equivalent per day (BOE/d), which was 2% higher than last quarter and up 5% from the third quarter.

Driving this strong result were the solid drilling results the company experienced during the quarter; 19 wells from its Sugarkane multi-zone tests delivered 30-day initial production rates of 1,300 BOE/d. Given that Eagle Ford is the only area where the company is actively drilling at the moment, achieving strong results from the play is critical.

2. Hedging helped netbacks

The price of crude oil crashed during the quarter with its average price plunging from $42.15 per barrel in the fourth quarter to $33.45 per barrel in the first quarter. That 21% decline weighed heavily on the company's realized oil price, which dropped 24% to $37.97 per barrel. However, the reason the company's realized price was higher than the average price was due to its oil and gas hedges, which helped cushion the blow.

In fact, during the quarter, its operating netback was just $5.82 per BOE without hedges, but $12.29 per BOE when including the gains from hedges. That helped keep earnings from falling into the red, while funds from operations were a positive $45.6 million, or $0.22 per share.

3. Shut-in production

In addition to capturing higher netbacks thanks to strong oil and gas hedges, Baytex Energy also was proactive to manage its production to maximize profitability. That resulted in the company shutting in 7,500 BOE/d of low or negative margin heavy oil production during the quarter.

While that weighed on production as a whole, which was down 6.6% from last quarter, it helped offset the fact that the company's hedges were weaker than prior periods after some of its more lucrative hedges rolled off at the end of last year.

On a more positive note, with oil prices improving of late, Baytex Energy could soon be in the position to restart its shut-in production. In fact, the company estimates that it can restart these wells within one month if netbacks improve enough to justify the effort.

Investor takeaway

While Baytex Energy is feeling the pressure of the weak oil market, its first-quarter results did come in better than expected. Driving this result was stronger Eagle Ford production as well as the company's proactive initiatives to remain well hedged and shut in its lowest-margin production. These combined to keep the company from falling into the red during the quarter, enabling it to keep its head above water during the darkest quarter of the downturn thus far.

That said, it's not out of the woods just yet, given that it still has a lot of production shut in right now and can't drill any heavy oil wells due to poor economics. As such, it needs to see the oil-price rally continue in order to be on a more sustainable foundation.

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1. TSX:BTE (Baytex Energy Corp.)

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