



Crude Oil Prices Soar to Almost \$50: Why it's Time to Buy Baytex Energy Corp.

Description

What happened yesterday to send oil prices close to \$50—the highest level this year?

In a somewhat sudden change of heart, **Goldman Sachs** changed its negative view to one that is decidedly more optimistic, amid supply disruptions, such as the Fort McMurray wildfires and disruptions in Nigeria, and a general reduction in production as the supply response to low prices has set in.

In fact, as a reflection of the state of the oil and gas industry at this time, we need only look at the fact that drilling activity was down 61% in the U.S. and 56% in Canada in the first quarter of 2016. Drilling activity and rig counts are at lows not seen in decades. And while this is a dismal place to be, with this comes the knowledge that the supply response is under way and that we are much closer to a rebalancing of the oil and gas markets.

So why is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) well positioned to prosper from this turn of events?

Well, last year Baytex cut its dividend and cut spending in order to deal with the new reality of low oil prices, and although the company still has a lot of debt, it also has a much improved cost structure.

Cost reductions bring about better efficiencies

Over the years, Baytex has always been a low-cost producer relative to its peers. In the first quarter of 2016, operating plus transportation expense decreased 14.5% to \$11.09 per boe compared to \$12.70 per boe in the first quarter of last year.

In 2015, cost reductions to the tune of \$135 million have strengthened the company. Drilling costs have been reduced 27% at Eagle Ford and 20% in Canada. In general, the company needs US\$35 oil in order to be break even on a cash basis.

Balance sheet levered but under control

Baytex has done a lot of work to strengthen its balance sheet, and although the company remains very levered, it also has good liquidity.

Of its \$745 million credit facility, \$455 million remains undrawn. 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 the oil market recovers in the form of increasing prices and/or decreasing costs, these should be better years for Baytex, and the maturities shouldn't be a problem. And the company is not at risk of breaching its debt covenants at this time.

Keeping our eye 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. That is that Baytex is a high-quality oil producer with low-cost production and an experienced, high-quality management team. And, as a bonus, when the price environment is right, which may be sooner rather than later, the company has a significant inventory of low-cost crude oil projects.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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