



Why Is Baytex Energy Corp. up 290%?

Description

Since hitting lows of just \$1.57 early this year, shares of **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) have rocketed upward, rising over 290% and breaching the \$6 mark this week.

While many have called the rally overdone, the stock is still down roughly 85% over the past five years. Looking at a long-term chart (see below), the recent rally looks like a mere blip in an otherwise troubled operating history.

Why have shares exploded? What should you make of it?

[generate_fund_chart](#)

Back from the brink

With Brent crude oil approaching US\$50 a barrel, the rise in energy prices came at just the right time for Baytex given its struggles managing its outsized debt load. Currently, its total debt is nearly twice the size of its market cap.

In February, **Moody's** downgraded Baytex's debt below investment grade, giving the company a negative outlook. "The downgrade reflects the material decline in Baytex's cash flow we expect in 2016 and 2017, which will result in weak cash flow-based leverage metrics," a Moody's analyst said. "Baytex will also breach financial covenants in 2016 and will need to get relief from its banks."

While rating downgrades are typically backward looking, it has a real impact on the short-term cost of financing. Most companies that fall below investment grade see their bonds forcibly sold off by mutual funds that are mandated to only hold investment-grade securities. This also creates lower demand for future debt rounds.

While bankruptcy had been a legitimate concern, higher oil prices open up considerably more options for both equity and debt financing. That combined with the fact that 80% of 2016 oil production is already hedged gives investors hope that Baytex can continue to weather the downturn without reaching insolvency.

Years of breathing room

So while the recent rally was abetted by a pop in oil prices, the magnitude was so large because bankruptcy fears have been taken off the table.

Today, Baytex investors can be reasonably assured that, barring another collapse in oil prices, the company should survive for at least another few years. No major debt repayments come due until 2020, and the company's management team has done well to renegotiate financial covenants to avoid a technical default. For example, its current senior-secured-debt-to-EBITDA ratio is 0.5:1. Its maximum allowed ratio is 5:1.

You must think long term

Despite the near-term optimism, investing in Baytex must be a long-term proposition. All-in production costs are still estimated to be US\$40-45 a barrel, so without continued pricing improvements, the company would still face future financing troubles. If you're looking to play the oil rebound that's set to occur in the coming years, however, Baytex looks like a great choice to ride the wave, as long as you're willing to put up with volatility in the interim.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/26

Date Created

2016/05/26

Author

rvanzo

default watermark

default watermark