



## \$50 Oil Breathes New Life into Baytex Energy Corp.

### Description

Crashing crude prices earlier this year forced **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) to take a hard look at its operations. In doing so, it concluded that not only was it no longer profitable to drill in two of its three core plays, but that a vast swath of its legacy wells were just no longer economical. Baytex shut down some of its drilling rigs and shut in a substantial portion of its production.

However, with oil rebounding back to \$50 a barrel, the company has been able to restart the bulk of the legacy wells it shut down earlier this year, which will provide a big boost to its production and cash flow.

### Turning the pumps back on

During the first quarter, Baytex proactively shut in roughly 7,500 barrels of oil equivalent per day (BOE/d) of low-margin—and in some cases, negative—oil production after crude crashed below \$30 a barrel. That was a significant cut equating to 9% of its average daily output in 2015.

However, with the oil price recovering, Baytex has significantly improved the margins that it can earn on this production. Because of that the company has restarted many of these pumps over the past month; *Reuters* reported last week that the company has now restarted 95% of the wells it idled earlier this year.

That's a big deal for the company because it provides an immediate boost to its production.

It likely means that the company will exceed its 2016 production guidance range of 68,000-72,000 BOE/d given that it didn't expect this production to be brought back online until mid-year. Further, its cash flow for the year will also likely be much higher than initially anticipated, not only because the company will earn more on the production it was already anticipating for the full year, but it will now benefit from the incremental cash flow from the wells it recently brought back online.

### Not ready to restart drilling ... yet

Despite that stronger-than-expected cash flow, Baytex currently plans to stick with its budgeted \$225-

265 million in capex for 2016. However, with crude close to \$50 a barrel, it does put Baytex's heavy oil plays back above breakeven; its Lloydminster play needs \$43 oil to break even, while Peace River requires oil above \$46 a barrel to be economic. Because of that the company now has the option to make another revision to its drilling plans for 2016.

Initially, the plan was to drill 12 wells in Peace River and two dozen more at Lloydminster. However, in March the company revised its plan for the year and decided to forgo drilling those wells in addition to some in the Eagle Ford shale to save it between \$100 million and \$135 million in capex. In doing so, the company expected to be able to match its capex with its expected cash flows at a much lower oil price.

However, with its cash flow now expected to be higher, the company could choose to reinvest some of it into additional wells to boost its production. Not only could it choose to restart its heavy oil drilling in Canada, but it could reaccelerate drilling in the Eagle Ford shale.

### Investor takeaway

The rebound in the price of crude oil is having a noticeable impact on Baytex. Not only has it been able to restart most of the wells it had shut down earlier this year, but it could potentially generate excess cash flow. That cash flow gives it the option to pump more money into its capex budget, which could enable it to drill more wells this year than planned.

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### Date

2025/08/23

### Date Created

2016/06/15

### Author

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