



3 Surprises From Baytex Energy Corp.'s 2nd-Quarter Report

Description

Canadian oil and gas driller **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) recently reported its second-quarter results. That report was not only filled with the regular update on the company's financial metrics, but it also contained some interesting surprises. Here are the top three surprising revelations from that report.

Surprise! We've paid back some debt

Baytex Energy began the quarter with nearly \$2 billion in net debt, which is a lot for a company of its size given the current oil-price environment. That debt has handcuffed the company by limiting its flexibility. That is why it was a pleasant surprise to see the company's net debt fall by \$39 million during the second quarter. While that was not a lot, it was a step in the right direction.

Three factors fueled this debt reduction.

First, oil and gas prices rebounded sharply during the quarter, which helped fuel a remarkable 147% boost in Baytex Energy's operating netbacks to \$14.39 per barrel of oil equivalent.

Second, a 12% reduction in operating expenses from last quarter provided a further boost to netbacks.

Finally, the company restarted 6,500 barrels per day of the 7,500 barrels per day in production it shut in during the first quarter due to weak economics, which contributed some incremental cash flow.

These three factors combined to fuel a 78% increase in funds from operations, which provided it with excess cash to pay back some debt.

Surprise! We're cutting capex again

While oil prices rose sharply last quarter, Baytex Energy is not optimistic that oil has stabilized. Because of that, the company is reducing the pace of development in the Eagle Ford shale, which will result in its capex budget dropping by 13% to a range of \$200-225 million. That spending reduction will also cause the company's production to slip by another 1% from its initial guidance.

That said, the company does expect to generate excess cash flow based on current prices, which will give it a bit more financial flexibility.

Surprise! We've sold some assets

Given its balance sheet concerns, Baytex Energy is selling assets to bring in a bit more cash. During the second quarter, the company entered an agreement to sell its operated assets in the Eagle Ford for \$55 million. These assets were only producing 1,000 BOE/d and had lower netbacks than its other assets in the play due to small economies of scale, so this is not a significant loss.

In addition to that, the company anticipates closing the sale of another 1,250 BOE/d of non-core assets in Canada during the third quarter. These two asset sales, when combined with the company's excess cash flow, will help Baytex Energy slowly chip away at its large debt load.

Investor takeaway

While Baytex Energy's second-quarter results were not stellar by any means, the company did take steps in the right direction. While higher oil prices helped, the company was able to cut costs and unload weak assets to chip away at debt. That said, the company has a long way to go before it is back on solid ground, especially if oil prices remain weak.

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

2025/08/14

Date Created

2016/08/02

Author

mdilallo

default watermark

default watermark