Baytex Energy Corp. vs. Penn West Petroleum Ltd.: Is 1 a Better Bet?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) have really taken it on the chin over the past two years.

Is one of these companies a better contrarian bet right now?

Baytex

Baytex traded for $45 and paid out an annualized dividend of $2.88 per share two years ago. Today the dividend is gone and Baytex can be bought for $6.50 per share.

The stock has actually tripled off the lows of the year, but that is little consolation for long-term holders of the former dividend darling.

What's the scoop?

Baytex spent $2.8 billion to buy prized assets in the Eagle Ford shale play right at the top of the market. The deal loaded up the balance sheet with debt and is the reason why Baytex has been in survival mode for the last 18 months.

Management has done a good job of reducing capital expenditures, renegotiating terms with lenders, and focusing development on the core Eagle Ford assets. As a result, the company has bought itself some time and operating costs are down to the point where Baytex should be able to tread water if WTI oil averages better than US$40-45 per barrel.

However, the Q2 2016 numbers suggest Baytex is still struggling under the weak market conditions.

Funds from operations (FFO) came in at $81.3 million, down from $158 million in Q2 2015. Production for the quarter was 70,031 barrels of oil equivalent per day (boe/d), down 7% from the same period last year. For the first six months of 2016 production was 72,900 boe/d, down 17% from 2015.

Long-term debt stands at $1.54 billion with none of the notes due before 2021. The company has also borrowed CAD$347 million of the available US$575 million (approx. CAD$750 million) in credit facilities.

Things are still pretty tight, so oil is going to have to move higher if Baytex wants to avoid a sell-off of its properties.

Penn West

Penn West was in even worse shape than Baytex, and up until recently it looked like the company was headed for bankruptcy.

Like its peer, Penn West got caught out with too much debt, and management has scrambled to unload assets over the past two years in an effort to keep the company afloat.

Considering the difficult market conditions, the executive team has done a good job. The company found buyers for $800 million in properties in 2015 and another $1.3 billion so far this year, including a $975 million deal for all of its holdings in Saskatchewan.

The balance sheet is starting to look pretty good, and Penn West is now beginning to focus on production growth at the remaining sites. Capital expenditures will actually increase by $40 million to restart development on two core locations.

Next year, Penn West plans to spend $150 million, all financed using FFO. The result should be a 10% boost to output, and Penn West hopes to drive production higher by an equivalent amount each year going forward.

Which should you buy?

At the moment, oil prices look like they want to head lower, so I wouldn't buy any producer.

However, if you are a long-term bull on oil, and have a contrarian investing style, I would pick Penn West ahead of Baytex on a pullback.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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Date
2025/09/20
Date Created
2016/08/11
Author

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