



Baytex Energy Corp.: High Risk, Higher Reward

Description

After an amazing run at the start of the year, shares of **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) are down about 40% yet again to just \$5.

Right now, the company's projects are posting improved results (especially in the Eagle Ford), but current cash flows are simply not enough to service the company's \$1.9 billion in long-term debt.

Still, some analysts are calling Baytex "too cheap to ignore." Right now investing in the company is a bet on its survival. If Baytex manages to continue operating, the value of its underlying assets would provide significant upside. If it fails, it would, of course, lead to bankruptcy.

What's more likely to happen?

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Stuck between a rock and a hard place

The biggest headwinds to Baytex today are its considerable debt and its lack of investment in exploration and development (due to funding constraints). The company summed up its current struggles below:

If the current commodity price environment continues, or if prices decline further, we may need to make additional changes to our capital program. A sustained low price environment could lead to a default of certain financial covenants, which could impact our ability to borrow under existing credit facilities or obtain new financing. It could also restrict our ability to pay future dividends or sell assets and may result in our debt becoming immediately due and payable. Should our internally generated funds from operations be insufficient to fund the capital expenditures required to maintain operations, we may draw additional funds from our current credit facilities or we may consider seeking additional capital in the form of debt or equity. There is also no certainty that any of the additional sources of capital would be available when required.

In short, the company faces imminent bankruptcy given current conditions.

But management believes that it can turn free cash flow positive at US\$55 a barrel. That price point seems to be the magic price to Baytex's survival.

If oil prices remain elevated above US\$55, how much upside would there be?

Huge potential if Baytex survives

Baytex has roughly 275 million barrels of 1P reserves and 415 million barrels of 2P reserves.

Baytex's 2P reserves have an estimated discounted value of \$3.5 billion. After subtracting net debt of \$1.5 billion, analysts believe Baytex has reserves that are worth around \$2 billion (about \$10 a share).

With the company's stock at just \$5, investors will likely benefit greatly if Baytex survives. As long as prices remain above \$55 a barrel, it's likely that will happen.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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