Baytex Energy Corp. Is Still Cautious on 2017

Description

The oil market in Canada is clearly starting to improve. That is evident by the fact that a growing number of producers are no longer cutting investments and instead are planning on ramping up spending to deliver double-digit production growth next year. Unfortunately, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) isn't one of those companies as it remains pretty cautious on 2017.

Not exactly an optimistic view

Baytex was asked by an analyst on its third-quarter conference call what its plans are for the Eagle Ford shale next year. CEO Jim Bowzer responded by saying that while it has not yet finalized its 2017 budget, it expects capex to "be at the levels that we are at today," or about $225 million. Though, he did say that if oil prices improved back into the $50s, the budget "could go up a little bit."

Overall, the company's plan is to be flexible and keep capex right around cash flow with the expectation that the budget will go up and not down next year. While that is not a bearish view, it is also not very optimistic.

Likewise, the company's drilling plans for Canada are vague and not overly bullish. While Bowzer did say that Baytex no longer needs prices well north of $50 a barrel to resume drilling in Canada, it does need oil at least $50 a barrel before it would make economic sense. Because of that the company plans to

> …take a good hard look at [drilling in Canada] and we are making plans so that we have permits and surveys in place. So, if need be, we can hit the ground running as we enter 2017 with the program there. And if prices hold up here as we go through the end of the year, we'll probably end up doing something like that and have a Canadian program again as we go forward, but the jury is still out.

In other words, it might drill in Canada next year, but it might not.

At risk of falling behind

That rather lukewarm view is the polar opposite of many of its peers. **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), for example, intends to ratchet up it is spending next year with plans to boost its capex budget from $90 million to $150 million. That capital is expected to fuel 10% production growth next year, even while Penn West lives within its cash flow.

Encana Corp. (TSX:ECA)(NYSE:ECA) is planning to deliver double-digit growth next year. In fact, the company recently released a five-year growth plan which would see it boost output by 60% over the next five years while remaining cash flow neutral at about $55 oil.

Contrast these plans with Baytex, which would need to ramp its spending up to $300 million just to maintain its current production rate. That spending level is not even possible until oil is around $55 per barrel because that is the oil price it currently needs to produce that level of cash flow. It also means the company would need oil to be even higher before it can match the double-digit growth rates of its peers.

Because of that, Baytex's stock could underperform its faster-growing rivals, especially if oil stays in the low $50s for the long term.

Investor takeaway

Baytex must take a cautious view on 2017 because it is not currently generating enough cash flow to maintain its production, let alone grow it. It will not hit that pivot point until oil is sustainably over $55 per barrel, which puts it well behind peers that can fuel robust multi-year growth at that level.

Investors might want to consider either Penn West or Encana over Baytex because both currently have the capacity for plenty of growth, even if oil prices do not move all that much.

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