



Like the Energizer Bunny, Baytex Energy Corp. Just Keeps Going and Going

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is mired in \$1.9 billion of debt, its vaunted dividend vanished long ago, its stock price is a fraction of what it was in its heyday, and oil prices are low. Under these circumstances, most conventional energy companies would batten down the hatches, pay down the debt, and wait for oil market prices to normalize before being aggressive in its acquisitions.

But Baytex is no ordinary energy company. Like the **Energizer** Bunny, it keeps going and going, buying its way through the oil patch.

The company recently announced a \$65 million acquisition in Peace River, Alberta, financed by a \$100 million equity-bought deal at \$5.25 per share. The Peace River acquisition comprises 3,000 BOE, plus another 3,000 BOE that are currently shut in for regulatory and economic reasons. The balance of the \$100 million financing, \$35 million, will be used to get the shut-in wells up and running when oil prices normalize in the next year or two.

In the disposition of the acquired energy assets, 85% of the energy assets are heavy oil. The contemplated production life of the reserves is about 16 years. When you do the math, Baytex is paying roughly \$3 per barrel.

In February 2014, Baytex was paying a dividend of 22¢ per share, per month, the price of WTI oil was \$98 a barrel, and Baytex stock was trading at \$45. The company engineered a mammoth acquisition from **Aurora Oil & Gas Limited** in the Eagle Ford shale basin in Texas.

Altogether, the deal cost Baytex \$2.6 billion dollars; \$1.9 billion was paid in cash for the acquisition and \$700 million was assumed in debt. The price per BOE in this transaction was \$24.15 for proven reserves. Wisely, Baytex financed \$1.3 billion of this acquisition cost in an equity-bought deal at about \$45 per share.

Up market, down market, middle market: the Energizer Bunny keeps buying

Essentially, Baytex is employing a classic investment strategy: a dollar-cost averaging program in acquiring energy assets as it buys at varying *in situ* BOE prices over time. Buying low and selling high

is the most straightforward method of profit-making. However, when a business is continuously selling its product, it only makes sense for the successful energy company to devise a counter-balancing strategy to continuously refuel its production and replenish its inventory.

What will the Baytex stock do? If the oil price goes down, Baytex's stock will go down. If the oil price goes up, Baytex's stock will go up. The question is, what will oil do? No one knows.

Every day energy companies deplete their energy reserves. The faster reserves are depleted, the better for profits. By necessity, Baytex must keep searching and buying—always moving forward to stay alive.

One thing is for sure. If the stock plunges to \$1.50 or back to \$45 per share, this company will just keep going and going.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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