Is Baytex Energy Corp. a Buy After Boosting Capex?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) recently announced a whole host of moves to position the company for future growth. Topping that list is the company's decision to increase its capex budget for 2017 to a level that finally gives it enough money to not only maintain production, but to grow it. That said, despite the improving outlook, there are several better options for investors looking to cash in on an oil rebound next year.

Drilling down into Baytex's 2017 plans

Baytex expects to spend between $300 million and $350 million next year, which is up from the $225 million it intends to spend this year. This capital will enable the company to drill enough wells to boost its annual production average to as much as 70,000 barrels of oil equivalent per day (BOE/d) in 2017. That output reflects an organic growth rate of as much as 4% and would therefore end the company's recent production slide.

This outlook is much more optimistic than the one the company gave not more than a month ago when outgoing CEO Jim Bowzer said on the third-quarter conference call that the yet-to-be-finalized 2017 budget would "be at the levels that we are at today," or roughly $225 million. While Bowzer did say the budget "could go up a bit" if oil prices improved to the $50s, he did not seem to indicate that the company had any intention of growing production next year.

Instead, the company would remain conservative and match capex with cash flow. While that conservatism remains, given that Baytex still intends to keep capex in line with cash flow, what has changed is its outlook for oil prices. The company has clearly become more optimistic as a result of OPEC's recent agreements to curtail production, which could drain the oil market's oversupply and push prices higher in the future.

Just not good enough

While Baytex's plan to boost production by 4% next year is a noteworthy achievement, the company remains well behind its rivals.

For example, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) recently hit the accelerator on its 2017 growth plans. Not only did the company add a bit more capital to its budget, but it is pulling the spending rate forward. As a result, Crescent Point expects to grow production by 10% next year, which is an increase from its prior outlook for up to 8% growth. Even better, it can achieve that growth and pay its dividend while living within cash flow at $52 oil.

Further, for every $1 per barrel crude averages above that price point next year, Crescent Point will produce an incremental $50 million in cash flow. That extra money would give the company plenty of options, including the ability to increase the dividend or ramp up its growth rate.

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE), likewise, intends to expand its output by double digits next year. The company currently plans to increase spending from $90 million up to $150 million, which will deliver at least 10% production growth.

In fact, Penn West can achieve 10% annual output growth for the foreseeable future at $50 oil with the ability to deliver 15% growth at $60 oil. Further, even at those growth rates, the company would generate a growing supply of free cash flow, which the company could use to reinstate the dividend.

Another stronger option than Baytex is **Encana Corp.** (TSX:ECA)(NYSE:ECA). Like Penn West, Encana has significantly improved its balance sheet and repositioned its portfolio to get in position to deliver robust growth over the next few years. Under its current five-year plan, Encana envisions 60% production growth and 300% cash flow growth by 2021 as long as crude averages $55 per barrel. Meanwhile, higher crude prices would allow Encana to grow even faster.

Investor takeaway

Baytex is taking a step in the right direction by spending the capital needed to increase production next year. However, due to its higher costs and weaker balance sheet, it is still well behind rivals that can grow even faster next year. That’s why I’d consider buying one of its faster-growing rivals well before I’d add Baytex to my portfolio.

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