3 Ways Baytex Energy Corp. Is Losing to the Competition

Description

After two challenging years, most oil companies were optimistic as they entered 2017, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) included. However, while the company issued a positive outlook for 2017 compared to last year, its guidance fell well short of what several competitors expect to do this year. Here's why it's losing ground to the competition.

Organic exit-to-exit growth rate: 3-4%

When Baytex announced its 2017 budget in mid-December of last year, the company said it would spend between $300 million and $350 million on capex, which was its first spending increase in two years. That money would enable the company to drill enough new wells to fuel steady production growth over the course of the year, so by the fourth quarter, its output would be 3-4% higher than the same period of 2016.

That said, overall production would average 66,000-70,000 barrels of oil equivalent per day (BOE/d) this year, which, at the midpoint, represented a slight decline from last year's average of 69,509 BOE/d.

That guidance was well below what other producers anticipated they could achieve this year.

For example, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) expects to achieve a 10% increase in its exit-to-exit rate production, and that's off a much higher base of 167,000 BOE/d at the end of last year. Further, the company expects to increase its full-year average from 167,764 BOE/d last year up to 172,000 BOE/d this year.

Meanwhile, smaller rival **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) expects to deliver double-digit exit-to-exit growth this year from its retained asset base, which produced 28,655 BOE/d in last year's fourth quarter.

Cash flow breakeven level: $55

One reason Baytex is growing at a slower pace than its rivals is due to a much higher cash flow breakeven level of $55 per barrel. Contrast this with Crescent Point, which can fund its growth-focused capex budget and its current dividend while living within cash flow at $52 oil. Meanwhile, Penn West can entirely self-fund its capex program, even if oil drops to $40 per barrel.

Even companies that used $55 as the basis of their budget left themselves plenty of room to spare. For example, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) could fully fund its growth-focused capex budget and recently increased its dividend while still generating $1.7 billion of excess cash flow at that oil price. Canadian Natural Resources even has enough flexibility in its budget to roll back capex spending by up to $900 million if oil prices slump while still delivering production growth.

Debt-to-enterprise value: 65%

The primary reason why Baytex is growing at a slower pace and has a higher cash flow breakeven is due to a much higher debt load than its competitors. For example, Baytex's enterprise value is $2.7 billion, but it has more than $1.75 billion in debt, meaning that debt makes up 65% of its total value. Contrast this with Canadian Natural Resources, Penn West, and Crescent Point, which have debt-to-enterprise value ratios of 26%, 31%, and 33%, respectively.

Because Baytex has more proportional debt than its peers, it's paying a higher percentage of cash flow out to creditors. That additional expense is why its cash flow breakeven level is higher than its peers. That's cash the company could be using to increase production instead of making interest payments.

Investor takeaway

Baytex isn't growing anywhere close to the same rate as its rivals in the current environment. The primary culprit is its oversized debt load, which is causing interest expenses to eat a higher portion of its cash flow. Until Baytex solves its debt problem, it will likely continue to fall behind the competition.

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