



How Long Can Baytex Energy Corp. Survive?

Description

How long can **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) survive? This is the question many analysts for highly indebted companies in the beaten-up oil and gas sector have been asking for some time. Many oil and gas companies expanded aggressively during periods of high oil prices, as recently as just a few years ago. The capital expenditures that came along with such growth strategies have saddled many companies such as Baytex with debt loads that, in hindsight, may not have been sustainable at lower long-term levels.

I'm going to take a look at how Baytex's prospects look moving forward for investors interested in taking a position.

Debt is the real story here

I covered Baytex in November of last year and suggested to investors that the only way this company was going to survive long term is with a committed strategy of debt reduction and cost leadership.

Putting cost leadership aside, let's tackle how Baytex has done thus far in terms of its debt load (hint: not good).

Baytex has continued to increase its debt load, taking on more than \$71 million in debt during the first quarter of 2017 to support its operations and make its interest payments. The company's ability to continue to add debt is a positive, although with debt downgrades over the past two years, the company's debt is becoming more expensive to add as well as service.

What has really hurt the company, in my opinion, is the fact that in this low commodity price environment for oil, the quarterly interest expense on the loans the company has (\$28.5 million) is almost three times larger than the company's net income (\$11.1 million). Even though Baytex was able to turn a profit last quarter, the company was forced to add to its debt position to pay its interest payments — a situation which is neither prudent nor sustainable long term.

Bottom line

Many analysts have suggested the oil and gas industry is due for a rebound. While a rebound may indeed be in the works, the changing realities with respect to the supply and demand fundamentals globally have resulted in oil futures remaining depressed, severely impacting the ability of companies such as Baytex to earn profits to pay back debt.

With a company like Baytex, the story revolves around debt management and cost leadership. The company has done some promising things on the cost leadership side; however, it remains clear that Baytex is in real trouble and is one of the companies most in need of an oil rebound. If oil does not rebound within a reasonable time frame or drops substantially for a sustained period, bankruptcy is a real possibility.

Stay Foolish, my friends.

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