Now Up by 50%, This Energy Stock Is Still One of the Best Ways to Play Higher Oil

Description

Oil's latest rally sees the North American benchmark West Texas intermediate (WTI) up by over 18% since the start of 2018 to trade at over the psychologically important US$70 a barrel mark. That has served as a tremendous tailwind for beaten down energy stocks, causing upstream producer **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) to soar by over 50%. Despite that solid gain, there are more gains ahead for Baytex, making it one of the most attractive means of playing higher oil.

Now what?

Baytex entered the protracted oil slump that began in late 2014 when Saudi Arabia opened the spigots to push prices lower to derail the U.S. shale oil boom with excessive debt. It had overleveraged its balance sheet so as to fund the transformative $2.6 billion acquisition of **Aurora Oil & Gas Ltd.** While that may not have been the opportune time to add a considerable amount of debt to its balance sheet, it did give Baytex some of the best quality oil acreage in the prolific Eagle Ford Basin. That deal significantly boosted Baytex's light oil production — a key reason why the driller was able to survive the prolonged period of sharply weaker oil.

This acreage that makes it a highly attractive investment in an operating environment that sees rising oil prices. The light oil produced from Baytex's Eagle Ford acreage is typically sold at a slight discount to the spot price for WTI. This discount is significantly less than the one applied to Canadian light, medium, and heavy crude blends, which becomes apparent when reviewing Baytex's first quarter 2018 results. For the quarter, the driller realized an average price of US$61.76 per barrel for its light oil and condensate production compared to an average WTI price of US$62.87 for the period. That significantly enhances its profitability, giving it an edge over its peers that are solely focused on producing light, medium, and heavy crude in Canada.

For the first quarter, Baytex's Eagle Ford production was 78% weighted to oil and natural gas liquids, thereby allowing it to take full advantage of higher oil prices as well as minimizing the impact of weak natural gas prices. Baytex also reported its strongest operating netback from the Eagle Ford since2014 and record production rates from new wells in the basin.

Notably, amid rising oil prices, Baytex anticipates that its oil production will grow by around 6% by the end of 2018. Much of that growth will come from its Eagle Ford assets, as Baytex has allocated 55% of its capital spending on exploration and well development to that acreage. Baytex is also expecting to double drilling activity at its Peace River heavy oil properties and the completion of 65 wells at Lloydminster, an 80% increase over 2017.

These factors bode well for further expansion of oil reserves and production.

So what?

Due to its high-quality Eagle Ford acreage, Baytex is among the best ways to play higher oil, especially given that it has significantly strengthened its balance sheet. As at the end of the first quarter 2018, Baytex had US$402 million undrawn on an existing credit facility, a $45 million working capital surplus that's more than double the same period in 2017 and no material debt repayments due until 2021.

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