Is This the Hottest Merger to Occur in the Energy Patch in 2018?

Description

In a surprise announcement last week, intermediate oil companies **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Raging River Exploration Inc.** (TSX:RRX) announced they will merge to create a $5 billion upstream oil producer. The market reacted poorly to the news, sending their stocks lower to see them down by 21% and 25%, respectively, over the last month. This was despite oil moving higher since last Friday's announcement by OPEC that it, along with Russia, intends to boost its oil production by one million barrels. That sharp decline has created an opportunity for investors seeking exposure to a top-tier upstream oil producer that owns high-quality, long-life, light, medium, and heavy oil assets.

Now what?

The combined company will have oil reserves totaling 539 million barrels, which will be predominantly weighted to crude and other petroleum liquids. Its oil acreage will be split across five core assets. There is Baytex's holdings in what is considered to be the sweet spot of the Eagle Ford shale as well as its Peace River and Lloydminster heavy oil assets. Added to these will be Raging River's premier Viking light oil play and its 260,000 acres in the East Duvernay, which is fast emerging as one of the most important oil and gas resources in Western Canada. Those are long-life assets with an impressive combined decline rate of less than 30%.

The merged entity is forecast to have 2019 production of 100,000-105,000 barrels of crude daily, which will be 85% weighted to oil and petroleum liquids. That will reduce the impact of the protracted slump in natural gas on its earnings. This forecast production is expected to generate EBITDA of $1.1 billion and funds flow from operations of $1 billion for the year.

The deal is expected to close in mid-August 2018, and while both boards have backed the merger, the deal still requires approval of a about 66% of holders of Raging River Shares. If the merger is approved, Raging River shareholders will receive 1.36 common shares of Baytex for each common share of Raging River.

On completion, a company with an enterprise value of $4.9 billion and an equity value of $2.8 billion will emerge. It will have a solid balance sheet with net debt totaling $2.1 billion, which is a manageable

1.7 times forecast EBITDA and 1.9 times expected funds flow. When you consider Raging River's solid balance sheet and that Baytex has a well-laddered debt profile with no material debt repayments due until 2021, it is unlikely that there will be any balance sheet surprises for investors.

So what?

The sharp decline in Baytex and Raging River's stock over the last month indicates that the market is concerned by the merger. The key risk is that Raging River shareholders may vote against the merger, but given that the deal has the unanimous support of both boards, that is unlikely. It will create an energy company with considerable exploration upside, quality long-life oil reserves, and steadily growing production. In an environment where oil has firmed and appears poised to rally further, Baytex — in light of the transaction — appears attractively valued after that sell-off.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/07/06
Date Created
2018/06/26
Author
mattdsmith