



Is Baytex Energy Corp. (TSX:BTE) Stock a Buy After the Merger?

Description

Baytex Energy ([TSX:BTE](#))(NYSE:BTE) recently closed its merger with Raging River Exploration, and investors are wondering if better days are ahead for the combined company.

Let's take a look at the current situation to see if this might be a good time to take a [contrarian](#) position in the stock.

Strategic combination

Baytex closed its "strategic combination" with Raging River August 22, roughly two months after the two companies announced their intention to merge.

The market initially responded negatively to the deal, sending Baytex lower. Ahead of the announcement, Baytex traded for more than \$5 per share, but investors bailed out over the next 60 days, and the stock fell below \$3.60 on August 15. Since then, Baytex has enjoyed a nice recovery, surging back above \$4.30 per share.

In the latest update, investors received a clear picture of where the combined company stands. Current production is 94,000 barrels of oil equivalent per day (boe/d) with liquids representing 83% of the output. The new asset portfolio is diversified across some of the top plays in Canada and the United States, including Viking, Lloydminster, Peace River, East Duvernay, and Eagle Ford.

Growth plan

Baytex says its capital program for the second half of 2018 should be \$275-325 million. Production in Q4 is expected to be 97,000-99,000 boe/d.

For 2019, the company is forecasting total exploration and development spending of \$750-850 million with anticipated average production of 100,000-105,000 boe/d. Assuming WTI oil prices average US\$63 per barrel and the WCS differential averages US\$23 per barrel, the company is forecasting \$900 million in adjusted funds flow and free cash flow of \$325 million in 2019.

Things get a lot more interesting for investors if WTI oil trades higher. Baytex says every additional US\$5 per barrel would add \$130 million in adjusted funds flow. At the time of writing, WTI is \$68.50 per barrel.

Balance sheet

The addition of Raging River puts the balance sheet in better shape, and the company has negotiated an extra \$300 million term loan facility that is secured by the Raging River assets. This adds to the existing US\$575 million Baytex already had in place, bumping the total credit capacity to about \$1.05 billion, of which roughly \$500 million remains undrawn.

If oil prices surge, Baytex now has more flexibility to boost the capital program.

Should you buy?

You have to be an oil bull to buy any of the producers. If you fall in that camp, Baytex might be an interesting pick today. The combined company owns attractive assets and has an opportunity to drive production growth higher while generating enough free cash flow to start reducing debt in a more meaningful way.

Oil prices need to cooperate, and ongoing volatility should be expected, but investors have a shot at some nice upside gains in the next couple of years.

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