Is the Post-Merger Baytex Energy Corp. (TSX:BTE) an Attractive Way to Play Higher Crude?

Description

Energy stocks continue to attract considerable attention as crude rallies higher to see the North American benchmark West Texas Intermediate (WTI) gain 17% since the start of the year to trade at close to US$70 barrel. One quality upstream oil producer that has lagged behind WTI and risen by only 11% for the same period is **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE). The driller recently announced the closing of its merger with **Raging River Exploration Inc.**, which**,** while a positive development for Baytex, has attracted considerable ire from the market.

Now what?

It is difficult to understand the market's negative view of the transformational combination of Baytex and Raging River, which is now a leading North American upstream oil producer that for 2019 is forecasting average annual production of 100,000 to 105,000 barrels daily 85% weighted to oil and natural gas liquids (NGLs).

Baytex has forecast a company wide netback of $28 per barrel for 2019 using an assumed average price for WTI of US$63 per barrel, underscoring the profitability of its assets. Given the optimistic outlook for crude and that WTI is already trading at close to the US$70 a barrel mark, it is likely that netback for the year will be even higher.

Using Baytex's baseline assumptions, it expects to generate adjusted funds flow of $900 million for the year, which will grow significantly should WTI trade higher.

What makes Baytex an appealing energy investment is that it owns 20,200 net acres in what is considered the sweet-stop of the prolific Eagle Ford shale. This asset contributes around 36,000 barrels daily, or roughly 36% of the combined entity's output.

That is important to note because the light oil produced in the Eagle Ford sells at a slight discount to WTI compared to the deep-discount applied to Canadian heavy crude, which will be responsible for around 25% of the company's output. It isn't difficult to envisage that production growing at a solid clip, as Baytex has concentrated most of its capital expenditures on Eagle Ford.

The Eagle Ford acreage also has low breakeven costs, particularly when compared to its Canadian operations. It is thus highly profitable, producing the highest netbacks of any of its assets. Baytex reported a second quarter 2018 operating netback for that acreage of $35.42 per barrel of oil produced, with WTI averaging US$67.88 per barrel over the quarter. This is almost double the netback of $18.12 per barrel produced for its pre-merger Canadian assets during the same period.

What makes the combination with Raging River particularly appealing is that it has added that driller's light oil Viking and Duvernay assets to Baytex's existing operations. That acreage for the first quarter 2018 produced 21,351 barrels of light oil predominantly weighted to oil and natural gas liquids.

Its quality is underscored by Raging River reporting a first-quarter 2018 netback of $44.78 with WTI averaging US$62.87 over that period. Even with WTI trading at US$55 a barrel, Raging River had forecast an annual average operating netback of $39.44 per barrel.

The merger of the two companies has helped bolster Baytex's debt laden balance sheet because Raging River finished the first quarter with net debt of $329 million. This will see the combined entity have forecast net debt of a manageable 2.2 times adjusted funds flow, less than half Baytex's net debt to adjusted funds flow at the end of the second quarter 2018. Notably, there are no long-term debt maturities until 2021, providing ample time for the driller to benefit from higher oil and build up its cash holdings.

Because of the deal, Baytex has also been able to significantly bolster its liquidity, adding an undrawn $300 million facility to an existing undrawn credit facility of US$575 million, giving it just over $1 billion of available credit. This provides it with considerable financial flexibility, allowing it to meet any near-term debt obligations while maintaining investment in developing its assets even if oil retreats sharply in coming months as some analysts have predicted.

So what?

It is difficult to understand why the market has taken such a negative view of Baytex and its merger with Raging River, as it has strengthened Baytex's bloated balance sheet while adding profitable high-quality light oil acreage to its assets. Amid an operating environment where oil is poised to move higher, the post-deal Baytex is an attractively priced investment for risk tolerant investors.

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
2025/08/26
Date Created
2018/09/10
Author
mattdsmith