Is it Time to Buy Baytex Energy Corp. (TSX:BTE)?

Description

The bearish sentiment surrounding crude, which sees the North American benchmark West Texas Intermediate (WTI) trading at around US$54 per barrel after hitting a multi-year high of over US$76 a barrel has triggered a sharp sell-off of energy stocks.

One of the hardest hit has been **Baytex Energy** (TSX:BTE)(NYSE:BTE), which is down by 35% for the year to date compared to WTI losing a mere 7%. This occurred despite Baytex completing the successful acquisition of Raging River Exploration, which boosted its light oil reserves as well as production and strengthened its balance sheet.

There are a range of reasons why Baytex has been roughly handled by the market, but the latest sell-off has created an opportunity for risk-tolerant investors seeking exposure to oil.

Now what?

The acquisition of Raging River was completed in August 2018, creating a leading Canadian upstream light oil producer. It saw the emergence an oil company with reserves totalling 539 million barrels of crude, which — along with the capacity to produce up to 100,000 barrels daily — are predominantly weighted to higher-margin light oil and natural gas liquids (NGLs).

In the current operating environment where the price of Canadian heavy crude known as Western Canadian Select (WCS) recently crashed to a record low with no sign of a sustained recovery in sight, this is particularly important to note. Heavy oil for the third quarter 2018 made up 33% of Baytex's total crude production, whereas before the Raging River acquisition, it amounted to 38% of its total output.

The profitability of Baytex's operations continues to grow at a steady clip. For the third quarter, the driller's operating netback, which is a key measure of operational profitability, before hedging contracts was $31.39 per barrel, or almost double the $17.83 reported for the same period in 2017.

After applying the $4.07-per-barrel loss caused by risk-management contracts Baytex's netback still came to a healthy $27.32 per barrel. The notable increase in the driller's netback can be attributed to higher oil during the quarter and a noticeable decrease in transportation expenses, which fell by $0.20 a barrel.

The ongoing focus on costs saw Baytex revise its 2018 full-year guidance, which included reducing its projected costs. Operating expenses at the top range of Baytex's new estimates are expected to be up to $0.50 per barrel lower than its original guidance. It also reduced forecast transportation costs by up to $0.15 per barrel, while general and administrative expenses were reduced by $0.09 per barrel. This will go a long way to boosting Baytex's netback and profitability.

An important aspect of Baytex's operations is its considerable acreage in what is considered to be the sweet spot of the Eagle Ford shale. That asset is responsible for almost half of the company's total oil and gas output. Because of the high-quality light tight crude produced — along with it being closer to crucial U.S. markets — it sells at a premium compared to the light and heavy oil produced by Baytex's Canadian operations.

So what?

Now that Baytex has completed merging Raging River's operations into its business, the execution risk associated with deal virtually ceases to exist. For that reason, it is difficult to understand why the market is heavily marking down the driller's stock. There is every sign, including a stronger balance sheet, that Baytex is well positioned to take advantage of the next oil rally and that its earnings will grow at a steady clip.

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
2025/08/25
Date Created
2018/11/22
Author
mattdsmith