Is Baytex Energy Corp (TSX:BTE) Headed for Bankruptcy in 2019?

Description

Baytex Energy Corp (TSX:BTE)(NYSE:BTE) has had a difficult 2018. While crude oil prices have fallen roughly 10% over the past 12 months, Baytex stock has fallen nearly 40%. Apart from weak energy prices, several other troubling factors have contributed to the company's poor performance this year.

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Canadian oil was a disaster this year

First, Canadian oil prices have struggled to match those of higher-quality regions, particularly in the U.S. For example, Edmonton Mixed Sweet prices fell below $30 per barrel last month, while Western Canada Select prices dropped under $20 per barrel.

Why the disconnect between the more popular benchmark of West Texas Intermediate (WTI) prices, which often surpassed $50 per barrel in 2018? Discounts on Canadian crude have persisted for years due to the higher costs involved in transporting and refining Canada's lower quality, heavier crude.

Over the past decade, Western Canada Select prices have traded at a $17 per barrel discount compared to WTI prices, on average. But over the past few months, that discount grew to more than $50 per barrel at times.

If you were producing Canadian oil, it was a rough year. But for Baytex, these issues were just the beginning.

Baytex has a frightening balance sheet

Perhaps one of the biggest concerns for shareholders involves the company's ability to service its debt. Let's run through some numbers to understand just how dire the situation is.

While the company's market capitalization has shrunk to just $975 million, it still maintains a debt load of $2.1 billion, which is more than two times larger than its entire equity base. Baytex originally experienced a massive rise in debt due to ill-timed acquisitions, and it looks like management still hasn't learned its lesson. Over the summer, it merged with Raging River in a $2.8 billion deal.

Unsurprisingly, it was an all-stock transaction, meaning 0% of it was paid in cash. But while Baytex gained valuable long-term assets in the Viking, Peace River, Lloydminster, East Duvernay, and Eagle Ford regions, it's now stuck with massive development costs in order to realize the full value of its purchase. In 2019, the company expects it needs to spend between $650 million and $750 million in exploration and development—that nearly matches the market capitalization of the entire company!

Baytex is running out of time

2019 will be a pivotal year for Baytex, and if current oil prices don't improve, bankruptcy chatter will likely enter the public discussion. In 2020, the company must repay a $770 million revolving credit line, nearly half of which is already drawn. Judging by the capital expenditures needs for 2019, combined with weak energy prices, there's a strong likelihood that this credit facility continues to be used. Refinancing would be a possibility if the company didn't have an additional $550 million in debt coming due in 2021. Meanwhile, rising interest rates add on additional costs, even if refinancing were available.

It's difficult to see how Baytex could raise billions in more debt at attractive interest rates to pay off its impending maturities. Clearly, the company will need significantly higher crude oil prices to survive and avoid a costly bankruptcy.

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The bottom line

Baytex stock is no longer a great fit for investors looking for a long-term bet on oil prices, for even if oil prices improve over the next few years, shareholders may lose everything if a recovery occurs too slowly. Don't be surprised if the market considers bankruptcy a strong possibility for Baytex in 2019.

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