



Is 2019 the Year Baytex Energy Corp (TSX:BTE) Stock Goes to \$0?

Description

Last year, I [explored](#) whether **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) was headed to \$0. My conclusion was incredibly bearish.

“Don’t be surprised if the market considers bankruptcy a strong possibility for Baytex in 2019,” I wrote. Since my original article appeared, Baytex stock has remained at its all-time lows of around \$2 per share.

With mounting debt levels and depressed selling prices, is 2019 finally the year Baytex goes under?

This is not a drill

Baytex is in a dire financial situation. While management says that it’s free cash flow positive as long as oil prices are above US\$50 per barrel, the true story is much more complicated.

Currently, the company has \$2.3 billion in debt versus a market capitalization of just \$1.3 billion. While the company can maintain positive cash flow in 2019 at current oil prices, upcoming debt maturities will throw a wrench into the equation.

In 2020, the company’s \$1.1 billion revolving credit line needs to be paid off or refinanced. Roughly \$540 million of that credit line is already drawn. In 2021, an additional \$730 million in loans need to be repaid or financed.

In total over the next 24 months, Baytex needs to come up with nearly \$1.3 billion to pay off its debt maturities. That’s not even including an additional \$300 million maturity in 2022.

With less than \$40 million in cash on hand, things could get dicey quick.

The future is bleak

There simply is no way for Baytex to come up with \$1.3 billion in cash to pay off its near-term debts.

The entire market capitalization of the company would hardly be enough to pay this cost, meaning asset sales wouldn't solve the problem.

More likely, the company will sell stock and refinance debt to get through the next few years. The impact on current shareholders would be devastating.

A large share issuance — at least one big enough to put a dent in the company's debt load — would have to be priced at a discount to attract enough capital. So, not only would shareholders be diluted, but they'd be diluted at a steep discount to the prevailing stock price.

Refinancing the debt load may also prove difficult. Currently, the company's debt holds interest rates between 5% and 7% annually. For a company on the brink of collapse, it's doubtful that the market keeps these rates affordable, especially in a rising-rate environment.

Don't be surprised if Baytex needs to pay junk bond interest rates of 8% or more. For a company strapped for cash, that's a difficult pill to swallow.

Make the right call

Speculating on beaten-down energy companies is an enticing prospect after the entire sector dipped by 30% or more in recent months. Baytex stock, however, isn't the right pick.

Even if oil prices recover, the company may still need to massively dilute shareholders and refinance expensive debt to survive. If oil prices drop, there's virtually no margin of safety.

Let other investors take a risk on Baytex stock.

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