



Baytex (TSX:BTE) Is Cheap for a Reason and an Oil Stock to Avoid

Description

Crude has surged on the back of OPEC's announcement that it intends to deepen production cuts to see the North American benchmark West Texas Intermediate (WTI) trading at US\$60 per barrel and up by 27% since the start of 2019.

Despite that strong gain, intermediate oil explorer and producer **Baytex** ([TSX:BTE](#))(NYSE:BTE) [has lost](#) a whopping 34%, creating what some pundits claim is an opportunity to acquire a quality driller at a very attractive valuation. While Baytex owns some very appealing oil assets, notably its Eagle Ford acreage, the company is cheap for a reason and may not offer as much upside as many of its peers.

Approaching debt maturities

A key problem for Baytex is that at the height of the last oil boom in early 2014, it acquired **Aurora Oil & Gas** for a hefty \$2.6 billion, leaving it loaded up with what has become an unmanageable pile of debt. Baytex's long-term debt amounts to over \$1.9 billion, and even more worrying is that there are a range of mid-term maturities, which are placing greater pressure on its financial position.

The driller's US\$575 million revolving bank loan, which has around \$111 million drawn, falls due in April 2021, although this should not present a significant problem for the company. Baytex also needs to repay the non-revolving \$300 million term loan secured against the assets acquired from **Raging River** at the same time. There are also US\$400 million of secured notes maturing in 2021 and a further \$300 million in 2022.

This means over the next three years there is \$1.4 billion of debt obligations falling due, placing considerable pressure on Baytex in an operating environment where crude remains weak and its short-term outlook is poor.

Outlook for crude

While crude has rallied solidly over recent weeks, the outlook is not as optimistic as many pundits

believe. There are signs that the much-vaunted agreement between OPEC and Russia to reduce collective oil production by another 500,000 barrels daily, may not be as significant as energy markets believe. Some industry analysts claim that the real cuts will be somewhere between 300,000 to 400,000 barrels daily, which is believed by some to be optimistic.

Then there is the threat posed to higher oil by growing non-OPEC global oil production. The volume of active rigs in the U.S. recently grew, while major global producers such as Brazil, Mexico, [Colombia](#), and Canada are all seeking to bolster their oil output. Surprisingly, even strife-torn Venezuela, which has seen its oil production decline at a rapid clip, reported that oil output had increased.

The International Energy Agency (IEA) has predicted that OPEC's cuts won't prevent another oil supply glut in 2020, which, combined with ongoing fears of a trade war crimping global growth, could spur another oil price collapse.

There is also the likelihood of the price differential between the Canadian heavy oil benchmark Western Canadian Select (WCS) and WTI widening as Alberta winds down production cuts along with new conventional wells being exempt from the limits.

Weaker crude will continue to place pressure on Baytex's profitability and ability to generate enough free cash flow to meet its onerous financial obligations.

Foolish takeaway

There is no questioning the quality of Baytex's light oil assets, they are a cash flow-generating machine, but its heavy crude operations remains a liability, while softer oil will weigh on the driller's profitability.

If WTI falls to below US\$55 per barrel during 2020, then Baytex's forecast cash flow is threatened, creating the risk that it may not be able to fully fund approaching debt maturities. That could force Baytex to make further asset sales or refinance existing debt on more onerous terms if WTI falls below US\$55 per barrel for a sustained period. For these reasons, there are other far more attractive oil stocks for investors seeking exposure to crude.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/08/18

Date Created

2019/12/16

Author

mattdsmith

default watermark

default watermark