



Baytex Energy Corp. and Crescent Point Energy Corp. Are Focused on Their Rich U.S. Resource Plays

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) and **Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG)** have seen their cost per barrel of oil equivalent decline by 25% year over year with a target breakeven WTI price as low as US\$30 per barrel.

Both companies have taken significant steps to improve their drilling and completion designs. These steps have not only reduced costs, but they have increased initial production rates. The largest margins are being realized from their U.S. assets, which continue to be focus for any near-term growth.

Since 2014 Baytex has improved its well costs by about 34% for its U.S. assets and 20% for its Canadian assets. However, the low-commodity-price environment has made it difficult to fund additional drilling in Canada. During the first quarter Baytex shut in approximately 7,500 barrels of equivalent oil (boe) per day, or 30% of predominantly low or negative margin Canadian heavy oil production.

Instead, Baytex has relied on its light oil and condensate production from its Eagle Ford assets. Light oil is priced primarily off a Louisiana Light Sweet benchmark, which typically trades at a premium to WTI. The company realized a 63% premium on its sales price from its Eagle Ford output compared to its Canadian assets.

For 2016, Baytex has focused on its assets in the Eagle Ford formation, which represents about 55% of its gross reserves, or 188 million boe. It has also recognized 144 million boe of possible reserves in the region. The company plans to direct 90% of its 2016 capital expenditures budget to its Eagle Ford and Austin Chalk assets. This is building on the company's success of its 2015 capital development program and the significant advancements made to explore the multi-zone or multi-formation potential in these regions.

Crescent Point announced this week that it has entered into an agreement on a bought-deal basis to sell 33.7 million common shares at \$19.30 per share. The \$650 million of proceeds raised will be used to reduce bank indebtedness and fund incremental growth capital expenditures in the near term.

As at June 30, 2016, the company had \$4.2 billion in long-term debt. About 45% of it is in the form of senior guaranteed notes with \$50 million maturing in less than one year and \$315 million maturing over the next five years. The company has been able to decrease its effective interest rate to 4.04% from 4.34% due to the management of its credit facilities, which it could further repay using a portion of these proceeds.

The company also announced that it is increasing its fourth-quarter capital budget by \$150 million and issued its preliminary 2017 budget of \$1.4 billion, which includes \$450 million of incremental growth capital above its sustaining capital budget of \$950 million. This will allow the company to maintain its current 20-rig drilling program over the next 12-18 months and further develop some of its more economical U.S. assets.

In the Uinta Basin in eastern Utah, the company improved drilling efficiencies in its vertical program by reducing the number of drilling days by 50% and continues to evaluate horizontal drilling potential in the region. It drilled one net horizontal well in the region during second quarter, following up on the success of its most recent Castle Peak horizontal well, which is expected to generate a payout in less than two years at a cost of approximately US\$5 million.

The company expects to drill two more horizontal wells in the second half of 2016. This is important as these assets account for approximately 25% of the company's potential reserves with less than 0.6% recovered to date.

Conclusion

Baytex's operations in the Eagle Ford formation are the backbone of the company. With a breakeven WTI price of US\$30 per barrel (a 33% discount from its breakeven price in Canada), these assets will continue to generate the largest margins for the company.

Crescent Point's expansion in the Uinta play could result in some major upside. Building on its success of drilling vertical wells, its horizontal well program could yield significant output and growth of the company's profits in the region.

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1. NYSE:VRN (Veren)

2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VRN (Veren Inc.)

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Author

scottbrandt

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