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Action Note
Equity Research

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Energy Producers - Junior & Intermediate

Baytex Energy Corp.
(BTE-T, BTE-N) C$5.26 | US$3.87

Yesterday's Sell-off Unjustified, in Our View—Upgrade to BUY

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Event

Acquires Eagle Ford pure-play Ranger Oil (ROCC-Q). Initial thoughts here.

Impact: SLIGHTLY POSITIVE

ROCC decline rate to moderate as growth trajectory slows: BTE estimates a 39% decline rate on the ROCC assets vs. its legacy 33% corporate decline. On closing, BTE is planning to drop to two rigs (from three), and as a result, the decline rate should moderate. BTE estimates ROCC sustaining capital of $575mm-$600mm. We model 2024E pro forma capex of $1.25bln. Revised 2023 guidance will be provided when the deal closes (modelling June 30, 2023).

Transaction solidifies BTE's positioning as a multi-basin operator—at one time, we expected it to exit the Eagle Ford: Pro forma operated production increases to 82% vs. 70% currently. With operated Eagle Ford assets, management highlighted an improved ability to shift capital north/south of the border to take advantage of regional pricing differentials (MEH prices reflect ~US$2/bbl premium to WTI).

Peavine economics best-in-class, but growth limited: Despite Peavine economics being the strongest in the portfolio, BTE is committed to plateauing production at 12-15 mbbld (should be achieved in 2023—note). As a result, activity could increasingly shift south-of-the-border given: 1) ample runway (741 net drilling locations/12-15 years sustaining development) and 2) competitive asset economics (second only to Peavine and non-operated Eagle Ford in Karnes County).

Transaction accelerates shareholder capital returns offering: Recall, BTE intends to instate a quarterly base dividend of $0.0225/share and immediately increase the FCF allocation to shareholder capital returns to 50%, from 25%. On strip, we now estimate a pro forma 2024E cash return yield of 13% vs. its oil-weighted peer average of 12% (7-20%).

Too inexpensive to ignore, in our view: Given yesterday's correction, we estimate a 2024E strip FCF yield of 30% (peer average—17%). This is now the least expensive name within our U.S./Canadian coverage universe.

TD Investment Conclusion

We believe the market reaction to the transaction was overly punitive and believe the positives outweigh the negatives. Yesterday's excessive share-price pullback has boosted our target return to 34% which, in turn, merits an upgrade to BUY.

Recommendation:	**BUY ↑** *Prior: HOLD*
Risk:	**HIGH**
12-Month Target Price:	**C$7.00**
12-Month Dividend (Est.):	**C$0.02**
12-Month Total Return:	**33.5%**

Market Data (C$)

Current Price	C$5.26
52-Week Range	$5.11 - $9.16
Mkt Cap (f.d.) ($mm)	$4,564.1
Mkt Cap (basic) ($mm)	$4,534.6
Float Cap ($mm)	$4,489.4
Current Dividend	$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	5,624,618

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	867.7
Shares O/S (basic) (mm)	862.1
Float Shares (mm)	853.5
Net Debt ($mm)	$2,371.4
NAVPS	$9.15

Estimates (C$)

Year	2021A	2022A	2023E	2024E
CFPS (f.d)	1.30	2.03	2.23	2.48
CFPS (f.d) (old)	–	–	*2.01*	*2.11*
Oil & NGLs (mb/d)	65.2	69.7	102.3	134.8
Gas (MMcf/d)	89.6	83.1	109.8	139.2
MBOE/d	80.2	83.5	120.6	158.0

CFPS (f.d) Quarterly Estimates (C$)

Year	2021A	2022A	2023E	2024E
Q1	0.27	0.48	0.50	0.58
Q2	0.31	0.60	0.51	0.62
Q3	0.34	0.50	0.63	0.64
Q4	0.37	0.45	0.55	0.65

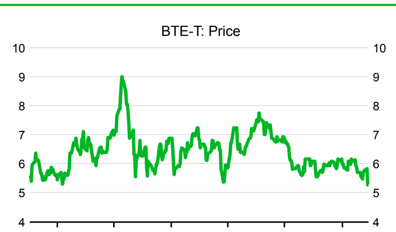
Valuations

Year	2021A	2022A	2023E	2024E
EV/DACF	3.3x	3.6x	3.9x	2.7x
P/NAV	–	57.5%	–	–

Supplemental Data

Year	2021A	2022A	2023E	2024E
WTI (US$/bbl)	67.75	94.50	75.00	70.00
WCS (US$/bbl)	54.50	76.25	53.00	52.50
HENRY HUB (US$/MMBTU)	3.85	6.40	4.00	4.00
FX (US$/C$)	0.80	0.77	0.75	0.77

All figures in C$, unless otherwise specified



Company Profile

Baytex Energy Corp. is an oil and gas company engaged in the acquisition, development, and production of oil and natural gas assets in the Western Canadian Sedimentary Basin and the Eagle Ford in the U.S. Baytex shares trade on the TSX and NYSE under the symbol BTE.

Details

Exhibit 1. Summary of Deal Metrics Based on Consensus when the Deal was Announced

Total consideration (US$mm)			
Equity*		71%	$1,944
Net debt**		29%	$583
EV			$2,527

Transaction metrics**		
Production ***		
2023E	(US$boe/d)	$34,582
2024E	(US$boe/d)	$30,525
EV/DACF		
2023E	(x)	2.7x
2024E	(x)	2.3x
Reserves		
EV/1P****	(US$/bbl)	$14.54
EV/2P****	(US$/bbl)	$9.78

Note:

** Based on February 27, 2023 closing price, including unvested equity settled stock-based awards.*

*** Based on BTE offer price and FactSet consensus for ROCC.*

**** Before royalty, assuming 29% royalty rate and using FactSet consensus after royalty production.*

***** Based on YE2022 reserves.*

Source: Company reports, FactSet, TD Securities Inc.

Exhibit 2. Summary of Deal Accretion Based on Consensus when the Deal was Announced

Pro Forma	BTE	ROCC*	Consolidation	Pro Forma	2024E Accretion
2024E Production (boe/d)**	90,081	82,782		172,863	
Oil (bbl/d)	71,282	60,563		131,846	
Liquids (bbl/d)	76,333	69,671		146,004	
Gas (mmcf/d)	84	63		148	
Liquids weighting %	*85%*	*84%*		*84%*	
Share price ($)***	$5.83	$45.59		$5.83	
Basic shares (mm)	545	42		864	
Diluted shares (mm)***	550	43		870	
Market cap (f.d. $mm)	$3,209	$2,637		$5,071	
Net debt ($mm)	$925	$791	$770	$2,486	
Enterprise value ($mm)	$4,135	$3,428		$7,557	
2024E FFO ($mm)****	$1,121	$1,408	($14)	$2,515	
2024E FFOPS****	$2.41	$34.20		$2.89	20%
2024E EBITDA ($mm)	$1,273	$1,495		$2,768	
2024E EBITDAPS	$2.31	$35.06		$3.18	38%
2024E DACF ($mm)	$1,162	$1,466		$2,627	
2024E DACFPS	$2.11	$34.37		$3.02	43%
2024E PPS (boe/d)*****	0.16	1.94		0.20	21%
EV/boe/d (2024E)	$45,898	$41,409		$43,717	
EV/2024E EBITDA	3.2x	2.3x		2.7x	
Current net debt/2024E FFO	0.8x	0.6x		1.0x	

Note:

** ROCC figures in C$mm except for share price. Multiples are also in C$.*

*** Based on FactSet Consensus at the time of deal announcement. Therefore figures do not match our latest estimates.*
Liquids plus gas consensus estimates might not equal total production estimates.
We grossed-up ROCC production to pre-royalty assuming a 29% royalty rate (similar to BTE's Eagle Ford royalty rate).

**** BTE share price based on February 27, 2023 closing C$ price on TSX.*
ROCC share price is in US$ and is based on BTE's offer price.

***** Pro-forma includes incremental interest expense due to additional cash used in the transaction.*

****** Production per thousand shares.*

Source: Company reports, FactSet, TD Securities Inc.

Exhibit 3. Return of Capital Summary

	TD Securities Estimates									
	Q1/23E	Q2/23E	Q3/23E	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E
Funds From Operations ($mm)	277	281	537	466	1,560	479	500	506	502	1,987
Free Cash Flow ($mm) *	48	162	221	151	582	172	189	192	181	734
% FCF Pledged to Buybacks **	25%	25%	50%	50%	41%	50%	50%	50%	50%	50%
Share Buybacks ($mm)	12	41	111	75	239	86	95	96	91	367
Dividends ($mm)	-	-	-	19	19	18	18	18	17	72
Total Cash Return ($mm)	12	41	111	94	257	105	113	114	108	439
Total Cash Return Yield (%) ***					6%					11%
Period End Shares Outstanding (mm)	543	862	842	828	828	813	795	778	761	761
Period End Market Capitalization ($mm)	2,855	4,535	4,429	4,357	4,357	4,274	4,184	4,092	4,005	4,005
Period End Net Debt ($mm - BTE Definition) ****	933	2,355	2,245	2,188	2,188	2,121	2,044	1,966	1,893	1,893

** BTE definition - FFO (CFO add back changes in working capital) less capex and lease obligations.*
*** BTE pledged FCF return target is on an annual basis, and therefore quarterly amounts may vary.*
**** Based on our estimated period end market capitalization.*
***** BTE definition (interest bearing debt net of AR, AP and cash; we ignore unamortized debt issuance costs which are immaterial); differs from TD definition used elsewhere.*

Source: Company reports, TD Securities Inc.

Outlook

Exhibit 4. Summary of Estimate Changes

	Original 2023E	Revised 2023E	% Change	Original 2024E	Revised 2024E	% Change
Production (boe/d)						
Canadian Light Oil & NGLs	15,080	16,289	8%	15,176	17,879	18%
Canadian Heavy	37,882	34,295	-9%	40,813	34,679	-15%
US Oil & NGLs	21,184	51,672	144%	21,257	82,232	287%
Canadian Natural Gas	7,282	7,282	0%	7,288	7,243	-1%
US Natural Gas	5,983	11,016	84%	6,134	15,961	160%
Total Average Daily Production (boe/d @ 6:1)	87,410	120,554	38%	90,668	157,994	74%
Financial						
Cash Flow ($mm)	$1,080	$1,560	44%	$1,060	$1,987	87%
Capex ($mm)	$613	$975	59%	$620	$1,250	102%
Funding Surplus / Deficit (Post Dividend) - $mm	$467	$566	21%	$440	$666	51%
CFPS (FD)	$2.01	$2.23	11%	$2.11	$2.48	17%
DACFPS (FD)	$2.13	$2.42	14%	$2.20	$2.70	22%

Source: TD Securities Inc.

Valuation

BTE is trading at 2.7x 2024E EV/DACF versus its peers at 2.9x. It has traded at an average trailing six-year EV/EBITDA multiple of 4.4x (3.2x–5.6x based on +/- 1 standard deviation). In our view, BTE has at times traded at a discount to its peers, given its net exposure to the historically volatile WCS heavy benchmark, non-operator status in its high netback Eagle Ford play, and decentralized assets. With the Ranger Oil acquisition, BTE now has operated Eagle Ford exposure, expects to reinstate a quarterly dividend in Q4/23E, and is immediately stepping up the FCF allocation to shareholder capital returns to 50%. We believe consistent execution on the Ranger assets over the next several quarters will prove critical in getting the market more comfortable with this strategic shift.

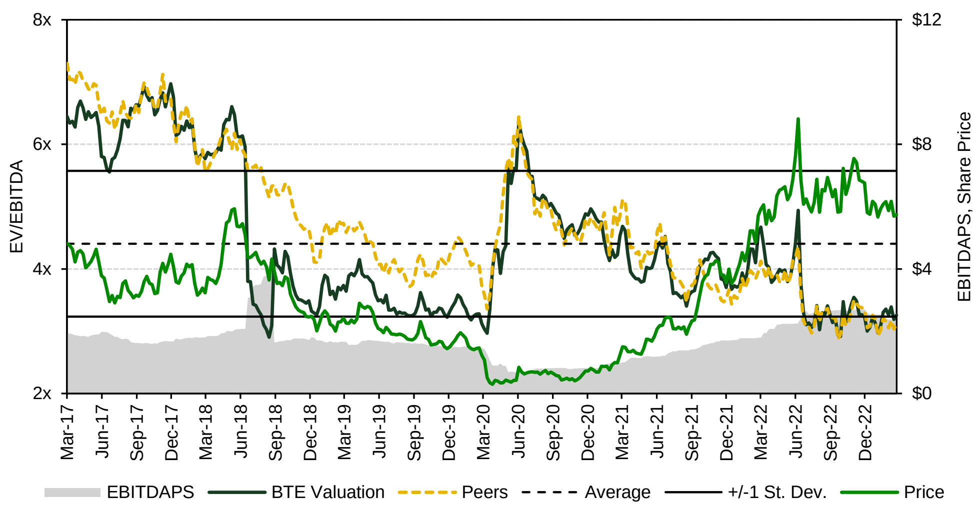
Exhibit 5. Relative Valuation Comparison

	Share Price	Enterprise Value	P/NAVBD (TD)	P/NAVMG (TD)	EV/DACF (2023E)	EV/DACF (2024E)	EV/BOEPD (2023E)	EV/BOEPD (2024E)	EV/2PBOE	D/CF (2023E)	Payout (2023E)*	% Liquids (2023E)*
BTE	**$5.26**	**$6,935**	**-**	**57.5%**	**3.9x**	**2.7x**	**$54,424**	**$37,434**	**$9.96**	**1.0x**	**61%**	**85%**
CPG	$9.33	$6,461	56%	41.4%	2.8x	2.9x	$43,092	$38,863	$9.61	0.6x	59%	81%
WCP	$10.46	$7,919	69%	46.8%	4.0x	4.1x	$46,264	$42,045	$6.75	0.6x	75%	64%
VET	$18.28	$4,550	35%	33.9%	2.6x	2.4x	$45,755	$37,423	$9.03	0.5x	41%	49%
Median			56%	41.4%	2.8x	2.9x	$45,755	$38,863	$9.03	0.6x	59%	64%

**Note: Payout is calculated as capex plus dividend (DRIP adjusted if applicable) as a % of cash flow*

Source: Company reports, FactSet, TD Securities Inc.

Exhibit 6. Historical BTE and Peer Group Consensus EV/EBITDA Multiples



Source: Bloomberg, TD Securities Inc.

Justification of Target Price

Applying a 1.0x NAV multiple to our fully expanded modified NAV generates a value of $9.15/share (25% weighting), while applying a projected 3.5x EV/DACF multiple to our blended 2023E and 2024E DACF generates a value of $6.37/share (75% weighting). Blending the two valuation methodologies generates our 12-month target price of $7.00.

Key Risks to Target Price

Key risks associated with our target price include business risks of the company and industry, including, but not limited to: loss of key employees; drilling success; volatile commodity prices; operating costs; capital cost overruns; product supply and demand; financing/access to capital; government regulations; legislation; royalties; taxes; exchange rates; interest rates; and environment and weather concerns.

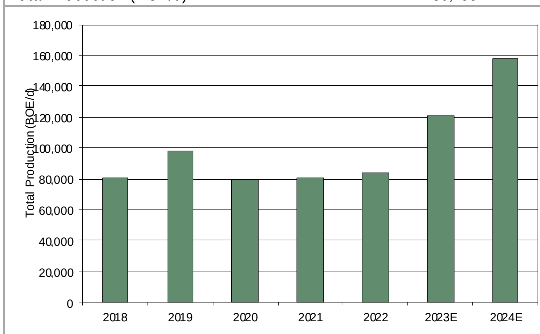
The key near-term company-specific risks include:

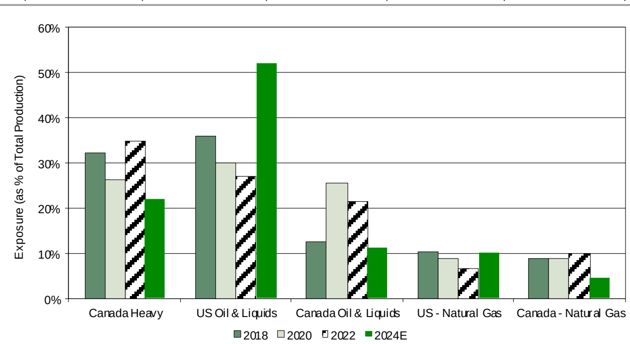
- Integration and consistent operatorship of the Ranger Oil assets.
- The largely non-operated nature of its MRO Eagle Ford assets and a limited ability to control the pace of spending.
- Disappointing drilling results in the Peace River Clearwater and Pembina Duvernay plays (although we believe this has now largely been mitigated in the Clearwater, in particular).

Exhibit 7. BTE Corporate Summary

Market Data		Investment Recommendation and Target		Target Price Calculation	
Ticker	BTE	12-Month Target Price	$7.00	**NAV Component (25%)**	
Exchange(s)	T, N	Recommendation	BUY	NAV (2P +2C)	$9.15
Current Price (C$)	$5.26	12-Month Projected Return	33.5%	NAV Multiple (x)	1.00
52-Week Range	$5.11-$9.16			***Growth Adjusted NAV (2P + 2C)***	***$9.15***
Fiscal Y/E	December 31				
Basic Shares Out. (mm)	862.1			**EV/DACF Component (75%)**	
Fully Dil. Shares Out. (mm)	867.7			Projected EV/DACF Multiple	3.5
Market Capitalization ($bln)	$4.5			***Valuation based on EV/DACF***	***$6.37***
Enterprise Value ($bln)	$6.9				
Dividend	$0.00				
Dividend Yield	0.0%				

Production	2018	2019	2020	2021	2022	2023E	2024E
Oil & Liquids (mbbl/d)	65.0	80.6	65.5	65.2	69.7	102.3	134.8
Natural Gas (mmcf/d)	93.0	102.7	85.5	89.6	83.1	109.8	139.2
Total Production (mBOE/d)	80.5	97.7	79.8	80.2	83.5	120.6	158.0
Year-over-Year Growth - Absolute	14.5%	21.4%	-18.3%	0.5%	4.2%	44.3%	31.1%
Year-over-Year Growth - Per Share	-23.5%	-23.4%	-18.8%	-0.1%	5.3%	16.1%	14.3%
Price Realizations							
Corporate Oil & Liquids Price (C$/bbl)	$53.18	$55.75	$35.53	$68.70	$98.46	$78.49	$75.12
Corporate Natural Gas Price (C$/mcf)	$2.92	$2.61	$2.39	$4.50	$6.46	$4.48	$4.81
Financial							
EBITDAPS (FD)	$1.81	$1.84	$0.73	$1.47	$2.27	$2.42	$2.74
DACFPS (FD)	$1.57	$1.76	$0.72	$1.46	$2.18	$2.42	$2.70
CFPS (FD)	$1.28	$1.57	$0.53	$1.30	$2.03	$2.23	$2.48
EPS (FD)	($0.85)	$0.39	($4.23)	$2.77	$1.51	$0.90	$1.02
Capitalization							
Net Debt ($mm)	$2,252	$1,879	$1,847	$1,411	$985	$2,205	$1,909
Net Debt per Share (Basic) ($)	$4.07	$3.37	$3.29	$2.50	$1.81	$2.66	$2.51
Net Debt / (Net Debt +Equity) (%)	42.4%	38.9%	76.2%	39.0%	24.5%	29.4%	25.2%
Net Debt / Trailing CF (x)	4.9 x	2.1x	6.1x	1.9 x	0.9 x	1.4 x	1.0 x
Net Debt / Forward CF (x)	2.5 x	6.2 x	2.5 x	1.2 x	0.6 x	1.1x	
Valuation							
P/E (x)	nmf	5.3 x	nmf	0.8 x	3.9 x	6.7 x	4.9 x
EV/DACF (x)	7.7 x	3.1x	5.5 x	3.3 x	3.6 x	3.9 x	2.7 x
EV/EBITDA (x)	7.5 x	3.0 x	5.4 x	3.2 x	3.4 x	3.8 x	2.7 x
EV/BOE/d	$54,121	$31,039	$28,353	$33,728	$52,214	$54,424	$37,434
Unlevered FCF Yield (%)					17.4%	17.1%	26.5%
Returns							
ROE	-13.1%	7.3%	-138.4%	115.7%	32.6%	15.6%	15.0%
ROACE	-5.8%	5.9%	-66.2%	56.4%	24.1%	13.0%	12.6%
Capital Expenditures & Funding Surplus / Deficit							
EBITDA ($mm)	$579	$1,005	$417	$843	$1,281	$1,723	$2,195
Cash Flow ($mm)	$459	$887	$304	$739	$1,147	$1,560	$1,987
Capex ($mm)	$496	$552	$280	$313	$522	$975	$1,250
Funding Surplus / Deficit (Pre Dividend) - $mm	($37)	$335	$24	$426	$625	$585	$737
Dividends ($mm)	$0	$0	$0	$0	$0	$19	$72
Funding Surplus / Deficit (Post Dividend) - $mm	($37)	$335	$24	$426	$625	$566	$666
Hedging							
% of Oil	46%	42%	64%	59%	43%	9%	0%
% of Natural Gas	22%	16%	18%	26%	36%	0%	0%
% of Total Production	41%	37%	56%	55%	41%	8%	0%
Production Profile	**2018**	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**
Canadian Light Oil & NGLs	10,158	23,722	20,327	18,614	17,956	16,289	17,879
Canadian Heavy	25,954	26,741	21,142	22,188	28,993	34,295	34,679
US Oil & NGLs	28,851	30,094	24,069	24,419	22,720	51,672	82,232
Canadian Natural Gas	7,270	8,162	7,133	8,622	8,326	7,282	7,243
US Natural Gas	8,225	8,962	7,111	6,312	5,524	11,016	15,961
Total Production (BOE/d)	80,458	97,681	79,782	80,156	83,519	120,554	157,994





Source: Company reports, TD Securities Inc.

TD Securities Equity Research Disclosures

Company	Ticker	Disclosures
Baytex Energy Corp.	BTE-T | BTE-N	9

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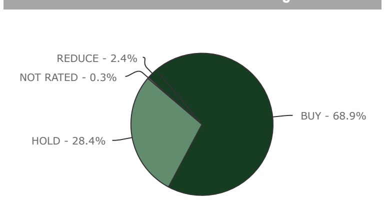

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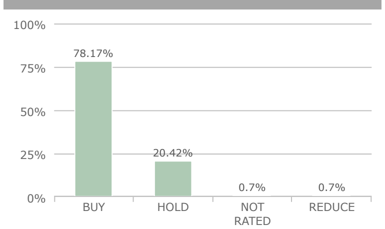

Current as of: March 1, 2023

^ Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings) and NOT RATED (covering UNDER REVIEW, SUSPENDED, and NOT RATED).

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BUY: The stock's total return is expected to exceed a minimum of 10% (with higher thresholds for less liquid, more risky securities) over the next 12 months.
SPECULATIVE BUY: The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.
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