



## Crescent Point Energy Corp. vs. Baytex Energy Corp.: Which Is the Best Income Investment?

### Description

The carnage in the oil space appears to be over and investors are starting to wade back into their favourite stocks. **Crescent Point Energy Corp.** (TSX: CPG) (NYSE: CPG) and **Baytex Energy Corp.** (TSX: BTE) (NYSE: BTE) are two of the popular picks because they pay huge dividends.

Income investors are hungry for yield but the recent volatility has some people wondering if the big payouts are safe. Oil prices appear to have stabilized around \$80 but there are still concerns around oversupply in the U.S. and lower global demand.

Let's take a look at both Crescent Point and Baytex to see if one is a better bet right now.

### Crescent Point Energy Corp.

Very few people have a neutral position on Crescent Point. On one side of the camp, investors love the company and pile into the stock every time it dips. On the other side, the analysts look at the company's business model, scratch their heads, and tell everyone to give it a wide berth. Some critics even put heavy short positions on the stock.

The controversy involves Crescent Point's practice of paying out more than 100% of free cash flow as dividends. The company uses the large payout as an incentive to attract investors when it needs to raise cash for takeovers or capital programs. In 2014, the company has spent \$4 billion on acquisitions and development. The majority of the funds came from capital markets.

The model has worked very well for the company and the dividend payout ratio is actually at the lowest point in the company's history because production revenues have increased significantly. For 2014, Crescent Point expects to see a 16% year-over-year increase in cash flow.

Crescent Point has never cut the distribution and uses an aggressive hedging program to protect its cash flow. Its portfolio of assets is one of the best in the patch. The Torquay properties in Saskatchewan are very productive, and the assets at the Uinta Basin play located in Utah hold enormous potential.

It's tough to criticize the performance. Crescent Point pays a dividend of \$2.76 per share that yields about 7.2%.

### **Baytex Energy Corp.**

Investors who like to see a conservative approach to dividend payouts tend to prefer Baytex.

The company produces crude oil, natural gas liquids, and some natural gas at its properties. Assets are located in the Western Canadian Sedimentary Basin, as well as the Eagle Ford and Williston Basin plays in the United States. It recently spent \$2.8 billion to acquire Aurora Oil and Gas Limited. The deal added more than 22,000 acres of property in the liquids-rich Eagle Ford shale play. The deal should ensure strong production growth moving forward.

Baytex has doubled the dividend in the past five years and recently bumped it by 9% to account for the added cash flow coming from the Aurora assets. Unlike Crescent Point, Baytex maintains a very conservative payout ratio. In the Q2 2014 earnings statement, Baytex said its payout ratio was 47% before accounting for the dividend reinvestment plan. After the DRIP, the payout actually dropped to 37%.

Baytex is doing a good job of shipping crude by rail to improve its margins. The operating netback in the second quarter hit \$40.74/boe, a year-over-year increase of 28%.

In the third quarter, Baytex hedged 51% of its WTI exposure at \$96.45 per barrel. The company pays a dividend of \$2.88 per share that yields about 7.8%.

### **The bottom line**

Both companies have a great track record of growing production and cash flow. Baytex maintains a conservative distribution policy and hedging program. Crescent Point is sitting on some of the best assets in the oil sector and is aggressively bringing its payout ratio down to more acceptable levels. Baytex offers a higher yield at the moment, so that might be the point that tips the scale.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

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

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aswalker

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