# How Should You Play Baytex Energy Corp?

## Description

**Baytex Energy Corp.** (TSX: BTE)(NYSE: BTE) made headlines a few days ago when it announced it is cutting dividend from $0.24 per month to $0.10. The company also trimmed its capital expenditure budget for 2015 by 30% to $575 million.



Shares of Baytex took a nosedive at what seemed like a knee-jerk reaction to the announcement. Baytex shares tumbled to five-year lows, but since then, there has been a bit of a bounce back as investors recovered from the news.

So what does this mean for the company and how should investors play the stock?

Well, in the near term, it does look like a negative for the company and for investors. But at The Motley Fool, we are all about long-term investments and looking at the bigger picture, since that is the best way to build a portfolio and ensure safe returns.

The past few months saw Baytex's yield hit 9.4%. This yield was was extremely high, putting the stock at risk given tumbling oil prices. With the announcement, that risk is gone and investors should look at this almost as a relief that the company cut its dividend. Think of it as "tough love" – sometimes tough decisions must be made (in the short term) for the greater good.

Baytex has a fairly strong balance sheet and a good management. It seems like management is being cautious by making the cuts in dividend and capital expenditure, as it is trying to ensure the balance sheet is preserved and the company has more flexibility with cash flow.

The main reason for the cut is because of a deal Baytex made earlier this year to buy Aurora Oil & Gas Limited in Texas (Eagle Ford) for $2.8 billion. Because of this deal, the company's debt-to-cash-flow ratio is 2x. Analysts at BMO believe that in 2015, this ratio will be over 3x if oil prices remain low, which is pretty high compared to other oil companies. To put that into context, most oil companies are trading at around 1.7-1.8x cash flow.

Baytex says it will continue to spend about 75% of its budget next year in the Eagle Ford, and expect to drill about 42 to 50 wells. Eagle Ford assets have led the company's growth, and management reckons the wells will offer the highest rate of returns in the company's portfolio at current oil prices.

**The bigger picture**

The risks for Baytex are mostly behind it. Since the stock plunged, valuations look extremely attractive to buy into the stock.

The silver lining of this announcement (and other similar announcements) is that companies seem to be taking immediate steps to react to oil prices, which in the long run, is positive for the sector as it decreases supply. Over supply has been the root of the fall in oil prices.

With Baytex's announcement of the cuts, investors no longer have to worry about whether the high yield will pop. They know exactly what they are getting now, and they know that this yield will be relatively stable. To add to such "peace of mind" is the attractive price the stock is currently trading at. I think investors should look at this as an opportunity to buy into the stock.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)



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