



## 4 Reasons to Buy Baytex Energy Corp. Even After the Dividend Cut

### Description

Earlier this year **Baytex Energy Corp.** ([TSX: BTE](#))(NYSE: BTE) completed the transformational acquisition of Australian downstream oil company **Aurora Oil and Gas Ltd**, and as a result hiked its dividend by 9% attracting a groundswell of interest from investors. This now appears premature with Baytex just this week slashing its dividend by 53% as it seeks to preserve capital after the crude price crash.

As a result of the crude price crash Baytex's share price is now down a whopping 62% for the year to date, leaving many investors wondering whether the company is a worthwhile investment. I believe that it is despite the dividend cut and significantly softer crude prices.

Let me explain why.

#### 1. Solid balance sheet

The changes to the dividend payment are not because of a decline in the company's financial health, but rather to account for the prevailing operating environment dominated by significantly softer crude prices.

Baytex still maintains a solid balance sheet with net debt representing a mere 1.2 times operating cash flow. It also has a high degree of liquidity with \$500 million in undrawn funds on its existing credit facilities, plus the ability to increase those facilities by up to \$250 million. More importantly there are no material repayments required on its long-term debt until 2021, giving it plenty of time to wait for a rebound in crude prices.

These characteristics leave Baytex well positioned to weather the current crude price crunch, without having any pressing financial obligations that would force it to further restructure its operations in order to preserve capital.

#### 2. Has a solid operating margin

Another of Baytex's strengths is its solid operating margin or netback per barrel of crude produced,

despite having 80% of its production weighted to lower margin Canadian heavy crude. A key reason for this is its acquisition of Aurora Oil and Gas, which saw it gain 22,000 net acres in the sweet spot of the prolific Eagle Ford shale.

This gives Baytex access to high quality light sweet crude, boosting higher margin light oil production by 25,000 barrels a day to be 28,000 barrels of crude daily by the end of the third quarter 2014.

These operations generate a solid netback, which for the third quarter was \$45.43 per barrel, despite average royalty payments being 10% higher than they are for Baytex's Canadian crude production. This can be explained by the oil produced from this acreage typically receiving a price per barrel which is at a premium to the benchmark WTI price.

This has helped to boost Baytex's company wide netback, which for the same period was a respectable \$40.86 per barrel. This gives it some fat to absorb lower crude prices before its operational cash flow is impacted.

I believe these operational characteristics endow Baytex with the means to weather the crude price crunch and remain profitable despite significantly softer crude prices for the short-term.

### **3. Has some very attractive valuation multiples**

After the frenzied sell-off of its shares Baytex is now trading with some very attractive valuation multiples, key being its enterprise value or EV of a mere five times EBITDA. It also appears attractively priced on the basis of its oil reserves with an EV of 16 times its oil reserves and equal to \$72,000 per barrel of oil produced daily.

### **4. Despite the dividend cut, it continues to pay an impressive yield**

Even after slashing its dividend by 53%, Baytex still pays a juicy yield of just over 7% and while the threat of further dividend cuts continue to linger particularly if the price of crude plunges lower, I believe they are unlikely.

This is because crude prices will rebound with many oil sands and shale oil operations now unprofitable which will force operators to wind back production. Furthermore, better than expected U.S. economic growth coupled with emerging economies picking up steam over the long-term including a recovery in China should drive demand for crude higher.

Baytex now appears attractively priced and when the quality of its assets, solid netback per barrel and juicy yield are taken into account it appears as an appealing long-term investment opportunity.

## **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

**Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Date**

2025/09/21

**Date Created**

2014/12/11

**Author**

mattdsmith

default watermark

default watermark