Canadian Oil Sands Ltd. vs. Baytex Energy: Which Has the Safest Yield?

Description

Canadian Oil Sands Ltd. (TSX:COS) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) are two of Canada's biggest victims in the recent oil rout.

Both companies have cut capital budgets and slashed their payouts in the wake of falling oil prices, and new investors are eyeing the current distributions and wondering which company offers the safest dividend payout.

Let's take a look at the current situation to see if one is a better buy right now.

Canadian Oil Sands

There's no other way to put it, Canadian Oil Sands has been a disaster for the past year. The stock is down almost 60% in the past 12 months and the coveted distribution just got cut by 43% from $1.40 per share to 80 cents.

With the stock now trading near $8.50 per share, the reduced dividend yields about 9.4%.

On the operational side, things aren't looking that great. Canadian Oil Sands recently provided production guidance for 2015 of 95 to 110 million barrels of oil. The company started 2014 with the same outlook, but then reduced the numbers three times during the year.

The lower production is also accompanied by higher operating costs. In the third quarter of 2014, operating expenses were $47.73 per barrel. That's well above the current price for Western Canadian Select (WCS) oil.

Operating costs for this year are expected to be $1.7 billion. With weaker oil prices, little or no production growth, and increased operating costs, the dividend might be a risk once again.

Baytex Energy

Six months ago, Baytex was firing on all cylinders as oil prices sat well north of $100 per barrel and management patted itself on the back for closing a $2.8 billion acquisition in the Eagle Ford shale play. The company even hiked its dividend by 9% to $2.88 per share.

In December, Baytex cut the dividend by 60% and announced spending reductions of 30%. The Eagle Ford assets will receive about 75% of the 2015 capital budget.

Baytex reported a 41% year-over-year production increase in the third quarter of 2014, with strong contributions coming from the Eagle Ford assets. Despite the reduction in capital outlays, production in 2015 should continue to be strong.

In the Q3 earnings statement, Baytex indicated it has 37% of its WTI oil exposure hedged at $94.79 per barrel for the first half of 2015. This will help offset current weakness in the market.

The current annualized dividend of $1.20 per share yields about 7%.

Should you buy?

If oil prices remain at the $50 level for more than six months, both distributions could be in jeopardy. If you want to take a flier on one of these companies, the better option is probably Baytex right now, given its hedging position and stronger operational outlook.

The best way to invest in the energy sector is to pick a company that wins regardless of the direction the oil price goes. The following free report analyzes one such company.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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