



Is it Time to Bet on Baytex Energy Corp. and its 5.5% Dividend?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) is up more than 30% in the last few weeks and investors are wondering if now is the time to step back in to one of Canada's former dividend kings.

The oil rout has been a disaster for many Canadian dividend investors. When an industry hits a rough patch, the market normally gives us enough warning that we can make a decision to ride out the slump, or move to the sidelines and wait to see what happens.

In the current oil debacle, the slide started slowly, but none of the pundits forecasted the total blowout we have seen during the past few months.

Baytex was considered a pretty safe bet. In fact, the company increased the dividend by 9% as recently as last June, after it closed the \$2.8 billion purchase of Aurora Oil and Gas Limited.

The market thought all was rosy as late as the end of August, when the stock still traded above \$48 per share. In December, Baytex announced it was slashing the dividend by 60% and reducing 2015 spending by 30%. By mid December the stock was at \$15, and investors were wondering how low it could possibly go.

Recently, the stock has seen some momentum as oil prices move back to the \$50 mark and traders unwind short positions.

Baytex should report decent Q4 numbers considering it had roughly half of its fourth-quarter production hedged at a weighted average price of \$96.45 per barrel. The company also has 37% of its production hedged at \$94.79 per barrel for the first half of 2015, and 11% hedged above \$90 for the second half of the year.

Despite the cuts to the capital program, output at the Eagle Ford assets should remain strong as most of the capex is being channeled to these properties. In the third quarter, year-over-year production increased by 41%. The growth rate will certainly slow down in 2015 but investors shouldn't see a significant production decline.

Is it time to buy?

Some energy companies are already announcing a second round of capital and dividend cuts. Baytex probably went more conservative on the December announcement than many of its peers and another cut would be a surprise.

The current dividend is probably safe for at least the first half of this year, given the strong hedging position.

If oil prices begin to drift higher through the back half of 2015, the stock should rally significantly and investors could see a double from current levels if crude prices take a run at the \$80 mark again by the end of the year.

Having said that, there are a lot of things going on behind the scenes in the global oil market right now and us little guys need to be careful. Further volatility is likely, and we could see another run at \$40 before the market finally stabilizes. As a long-term play, Baytex is probably a good bet, but you need some guts to jump in right now.

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1. TSX:BTE (Baytex Energy Corp.)

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