



Dividend Investors: Is it Finally Time to Buy Baytex Energy Corp.?

Description

It has been a rough 12 months for investors in **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE), but the tide could be turning.

Look out below

Last June Baytex was riding a wave of popularity as it announced the closing of its \$2.8 billion purchases of Aurora Oil & Gas Limited. The acquisition gave the company a stronghold in the high-demand Eagle Ford shale play and investors were rewarded with a 9% increase to the dividend as management expected strong cash flow growth to come from the new assets.

At that time the new dividend was \$2.88 per share and the stock traded for just under \$50. Oil prices started to slide through the rest of the summer, but the market believed the pullback in crude prices would be short lived and Baytex still traded for \$48 per share at the beginning of September.

Three months later the world had changed completely. Baytex cut its capital program and slashed the dividend by nearly 60%, while investors watched in disbelief as the stock plummeted to \$15 per share.

A rebound in the works

Management has worked hard over the past six months to stabilize the balance sheet and ensure the company is capable of surviving the duration of the oil rout.

At the beginning of the year Baytex negotiated new terms with its lenders and then raised a much-needed \$632.5 million through a bought-deal equity issue. The company used the proceeds to reduce total debt that stood at \$2.46 billion before closing of the offering. At the end of Q1, Baytex had \$1.1 billion in available undrawn credit facilities.

Since hitting the December lows, the stock has been volatile, but on an upward trend. In fact, the brave souls who bought the plunge are now sitting on a 40% gain.

With adequate liquidity and stronger WCS and WTI prices, Baytex is no longer facing a cash crunch,

but investors are still concerned about the dividend. For the moment, the payout looks safe.

The company is getting record production out of its Eagle Ford assets and expects total production in 2015 to be as high as 88,000 barrels per day, with production roughly split evenly between the Canadian assets and the Eagle Ford operations in Texas.

Funds from operations in Q1 were \$160 million. Netbacks in the current quarter will be higher than they were in Q1, and that trend should continue as long as crude prices remain at current levels or move higher.

Guidance for capital expenditures is set at \$500 to \$575 million in 2015. Funds from operations should cover this easily.

Should you buy Baytex?

Energy markets remain volatile and another plunge in oil prices could send the stock back to its December lows. That doesn't look like the direction things are headed, and the company is on much sounder footing now than it was a few months ago, but investors should be aware of the risks.

As the oil sector consolidates, Baytex might find itself as a takeover target given the quality of its assets and depressed valuation. I wouldn't buy the stock for this reason, but investors could get a nice premium if that happens.

If you are a long-term bull on oil, then Baytex has big upside potential. It might be best to start with a small position until the outlook for the market is a bit clearer.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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