Baytex Energy Corp.: Is the 6% Dividend Still Safe?

Description

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is down more than 8% this month and off 60% since this time last year.

The recent slide has pushed the dividend yield above 6%, and investors who'd thought the bloodbath was over are now wondering if another cut is in the cards.

A tough year

About 12 months ago Baytex and its investors were celebrating the closing of a major acquisition and a stock price that traded near $50 per share. The company had acquired Aurora Oil & Gas Limited in a $2.8 billion deal that launched Baytex into the big leagues in the much-coveted Eagle Ford shale play.

Oil still traded above $100 per barrel at that point and management believed cash flow was headed much higher. In fact, Baytex hiked its dividend by 9% when it announced the closing of the Aurora deal.

Then things started to change.

Oil prices began to slide in July, but the market thought the pullback would be short lived, and Baytex's shares still sold for more than $48 at the end of August.

Three months later investors stared at their portfolios in disbelief. The stock had lost two-thirds of its value and the company was forced to drastically reduce the distribution.

At one point it looked like Baytex was headed for a severe cash crunch, but management did an excellent job of righting the ship. The company reduced its capital plan, renegotiated terms with lenders, and raised $632.5 million in a bought-deal equity issue.

Adequate cash flow

The company is getting record production from its Eagle Ford assets and expects continued growth through the end of the year. Funds from operations in Q1 came in at $160 million. The second-quarter results should be much better and cash flow through the end of the year should be adequate to cover the $500-575 million the company plans to spend on capital programs.

Dividends cost the company about $41.5 million per quarter, so the company will need to bring in about $200 million to cover capital outlays and the distribution, assuming capital expenditures for Q2 are about $150-160 million.

If funds from operations come up a bit short, the company can tap its $1 billion available in credit lines to make up the difference.

At this point, the dividend looks safe until the end of the year and should be good beyond that as long as oil prices stay at current levels or move higher.

If crude heads back below US$50 per barrel for and extended run, things might get tight, but that doesn't look like the direction the market is headed at this point.

Should you buy?

Investors who had the guts to buy shares below $15 are still sitting on some nice gains, but the stock has been quite volatile, bouncing between $18-24 per share. The current trend is negative, so investors might want to wait for the latest pullback to run its course before stepping in.

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1. TSX:BTE (Baytex Energy Corp.)

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