



Baytex Energy Corp.: Is the Big Dividend Worth the Risk?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) offers investors a juicy 6.9% dividend yield and a shot at some big capital appreciation if the oil market begins to recover.

But oil prices are looking weak again and that presents some risks, especially if the pullback lasts more than a month or two.

Let's take a look at the current situation to see if Baytex should be in your portfolio.

Turnaround efforts

About this time last year Baytex and its investors were celebrating a \$47 per share stock price, the successful closing of a huge deal, and a nice boost to the dividend.

It's amazing how fast things can change in the energy market.

By the middle of December the stock had fallen all the way to \$15. In order to avoid a cash crunch, management cut the dividend by nearly 60% and significantly reduced the 2015 capital program.

As the new year arrived, Baytex renegotiated lending terms with creditors and raised \$632.5 million in a bought-deal equity issue.

The executive team acted quickly and decisively, and that has put the company in a better financial position than many of its peers.

Cash flow

Most of the energy patch had a brutal first quarter, but Baytex managed to bring in enough cash to cover its operating costs thanks to record production at its Eagle Ford assets.

Funds from operations came in at \$160 million, which were adequate to cover the \$147 million spent on capital projects.

The second-quarter numbers should be much better given the higher oil prices, and it is possible the results will show that Baytex had enough cash flow to cover its Q2 capital outlays as well as the \$41.5 million in dividends.

Baytex plans to spend \$500-575 million on capital programs this year.

Dividend safety

Baytex has about \$1 billion available in credit lines, so the distribution should be safe in the short term. If WTI oil prices continue to fall and settle below \$50 per barrel for an extended period of time, the numbers could get tight and the dividend would be at risk of another cut.

What should investors do?

Baytex owns great assets and is run by a strong management team. If you believe the renewed pullback in oil is temporary, Baytex is probably a good buy at current levels and existing shareholders should probably stick it out.

However, the dividend should be treated as a bonus at this point and further weakness in oil prices could send the stock toward its 12-month low.

CATEGORY

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3. Investing

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1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/21

Date Created

2015/07/14

Author

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