



Cenovus Energy Inc. vs. Baytex Energy Corp.: Which Big Dividend Is Safe?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) are hitting new lows, and that is driving their dividend yields to sky-high levels.

Dividend investors are always on the lookout for a generous distribution at a great price, but the risk of a cut increases substantially once the yield surpasses 6%.

Let's take a look at Cenovus and Baytex to see which one is most likely to cut its distribution.

Cenovus

The past few months have not been great ones for this oil sands operator.

The NDP win in Alberta is resulting in higher taxes and a review of royalty policies that could further damage an already-struggling energy sector. In May wildfires forced Cenovus to shut down production for several days at its Foster Creek facility. That will have a negative impact on the second-quarter results. If these events weren't enough, oil prices have reversed course again and now trade at levels that most analysts say are too low for many energy producers to make money.

In the first quarter, Cenovus generated \$495 million in cash flow. Capital outlays were \$529 million and the company paid out \$138 million in dividends.

Fortunately for investors, Cenovus is sitting on a huge pile of cash. At the end of Q1 Cenovus had \$1.8 billion in cash and cash equivalents, and the company just sold its royalty lands to the Ontario Teachers' Pension Plan for \$3.3 billion. This means there is more than enough money available to cover the dividend well into 2016, but management might decide to trim the payout if oil prices continue to weaken.

Cenovus pays a dividend that current yields 6%.

Baytex

Baytex investors have been hammered over the past 12 months. In fact, the stock has dropped 70% during that time.

Last December the company slashed its dividend by nearly 60% and implemented a series of capital cuts and cost reductions aimed at avoiding a cash crunch. Management then renegotiated terms with lenders and raised more than \$630 million in a bought-deal equity issue.

First-quarter funds from operations came in at \$160 million. This was enough cash to cover the company's capital program, and the second-quarter numbers should turn out to be better because oil prices were quite a bit higher.

Baytex plans to spend \$500-575 million in 2015 and the dividend will eat up another \$200 million by the end of the year.

The company has about \$1 billion available in credit lines, so the distribution should be safe in the near term, but Baytex will have to make some tough decisions if oil prices don't rebound in the next few months.

Baytex currently pays a monthly dividend of \$0.10 per share that yields 8.3%.

What should investors do?

At this point, the energy sector is in full retreat and volatility is likely to continue for some time. Cenovus has a better balance sheet right now, so its dividend is more likely to survive.

Both companies own fantastic assets and will do well when oil prices recover, but new investors should be careful buying the stocks while oil prices are sliding.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/03

Date Created

2015/07/21

Author
aswalker

default watermark

default watermark