



Baytex Energy Corp. and Canadian Oil Sands Ltd.: 2 Former Dividend Champs That Could Disappear

Description

The ongoing rout in the oil market continues to take its toll on Canada's energy patch, and some of the former dividend darlings are at risk of disappearing.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#)) (NYSE:BTE) and **Canadian Oil Sands Ltd.** (TSX:COS) to see if they are likely to survive.

Baytex

Flash back one year and the world was a very different place for Baytex Energy and its shareholders. The company had just completed its game-changing takeover of Aurora Oil & Gas, and even hiked the dividend by 9%.

Oil prices had started to slide by August, but investors thought the pullback would be short lived, and Baytex still traded for more than \$45 per share.

By mid-December the dividend had been cut 60% and stock was trading for \$15. Investors who have stayed with the company are probably wishing they had jumped ship when the shares bounced off the December lows and topped out at \$24 in early February.

Today the stock is trading below \$11 per share and the dividend yield is an ominous 11%.

You wouldn't know it by looking at the performance, but Baytex has done everything right to try to save the ship. It reduced capital spending and slashed the payout earlier than most other companies. Management also renegotiated terms with lenders and raised capital at a very favourable price, which enabled the company to pay down a nice chunk of the outstanding debt.

The company's Q2 2015 funds from operations of \$158 million actually covered capital expenditures and the dividend. And Baytex finished Q2 with about \$1 billion in undrawn bank facilities.

Unfortunately, WTI oil prices are back below \$45 per barrel and Baytex still has a lot of debt.

The company finished Q2 with total monetary debt of \$1.8 billion. If you add in the market capitalization of \$2.2 billion, you get an enterprise value of \$4 billion.

Given the quality Baytex's asset portfolio, I expect the company will be bought out, especially if it gets into trouble with its lending covenants.

Canadian Oil Sands

Canadian Oil Sands is the largest stakeholder of the troubled Syncrude oil sands project, which has battled with operational problems for the better part of three years.

When oil traded at \$100 per barrel there was enough cash sloshing around to cover unplanned maintenance expenses and still make some money. At \$45 per barrel, the company really needs to get the project back on track.

Syncrude has the capacity to produce 350,000 barrels of oil per day (bbl/d) but only averaged 258,000 per day in 2014. Operating costs averaged an eye-popping \$49 per barrel.

This year's operational numbers should be better. Production for the first six months of 2015 averaged 250,400 barrels per day compared with 247,200 barrels per day for the first half of 2014. At the same time, operating expenses are dropping, with an average cost through the first two quarters of \$42.83 per barrel compared with \$52.33 per barrel for the same period last year.

Progress is being made, but it might not be fast enough.

Net debt is still \$2.35 billion and the company's Q2 net debt-to-total capitalization increased to 36% from 30% at the end of 2014. For the moment there is still breathing room on the lending covenants, but the company's market capitalization is now down to \$3.5 billion and the Canadian dollar continues to weaken against its U.S. counterpart. That's bad news for the company's U.S. dollar-denominated debt because it becomes more expensive to repay. Canadian Oil Sands doesn't have any major debt due before 2019 and there is no significant maintenance planned for the rest of the year.

Some pundits point to Syncrude's vast resources and say the company is extremely undervalued. There is certainly a case to be made there, but I doubt investors will see a white knight come to the rescue.

Unlike Baytex, which is the sole owner of an attractive portfolio of assets, Canadian Oil Sands is a 37% owner on an oil sands project that has been plagued by operational issues. If oil prices rebound, the company will survive. Otherwise, I think shareholders will get wiped out and the remaining Syncrude partners will divide up the spoils.

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1. TSX:BTE (Baytex Energy Corp.)

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Date

2025/09/21

Date Created

2015/08/10

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