After Baytex Energy Corp. Halted its Dividend, Who's Next?

Description

On Thursday, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) became the latest energy company to slash its dividend. In fact, the company eliminated its payout entirely. The shares declined sharply in response.

Such a move should not have been surprising at all—Baytex clearly could not afford its dividend. The company has roughly 200 million shares outstanding, meaning its $0.10 monthly dividend would cost $60 million per quarter. There's no way Baytex could generate that kind of cash with oil at US$40 per barrel. To top it all off, the company has over $1.8 billion in monetary debt, a number that far exceeds its market capitalization.

This brings up a very obvious question: who's next? We look at three candidates below.

1. Canadian Oil Sands

Canadian Oil Sands Ltd. (TSX:COS) has already cut its dividend twice this year, but the company would be wise to slash its payout entirely.

Its second-quarter results tell the story. During the quarter, COS generated $70 million in cash flow, but this wasn't even enough to cover $155 million in capital expenditures. To make up the difference, the company withdrew another $170 million from its bank credit line. And that was when the WTI oil price averaged $58 per barrel.

Making matters worse, COS has over $2.4 billion in debt. So, with WTI at US$40, the company can't spare any cash. The dividend simply has to go.

2. Surge Energy

Surge Energy Inc. (TSX:SGY) halved its payout at the beginning of this year, but its dividend still yields well over 10%. And if the last 12 months have taught us anything, it's that 10%+ yields in the energy patch simply cannot last.

Of course, Surge is no exception. Just last quarter the company generated about $12 million in free cash flow, which wasn't enough to cover $16 million in dividend payments. Worse still, production will take a serious hit after the company sold over $400 million in assets earlier this year.

Interestingly, Surge is looking to buy back up to 10% of its shares, something we're not seeing much of in the energy patch. For the company to execute such a plan, it will need more cash. The dividend will have to take a back seat.

3. Encana

Encana Corporation (TSX:ECA)(NYSE:ECA) has made a series of missteps over the years, the most recent one being its $7 billion acquisition of Athlon Energy last year.

The move left Encana with over US$7 billion in debt by the end of the year. The company is trying to pay this down, and even issued over $1 billion of new equity to help with this.

If that wasn't bad enough, Encana's free cash flow has been severely negative through the first half of this year. So, the company would do best to eliminate its dividend, using that money to pay down debt instead.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)
2. TSX:SGY (Surge Energy Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/21
Date Created
2015/08/24
Author

bensinclair