Baytex Energy Corp.: Will the Dividend Cut Allow it to Avoid Bankruptcy?

Description

After its share price declined by over 80% in less than 12 months, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) took forceful action and completely eliminated its dividend payment this August. Nearly every other Canadian oil producer has been under similar pressures. Previous to the cut, shares were yielding over 10%.

For remainder of 2015, the elimination of the dividend will save the company about $80 million. Annually, this adds up to roughly $255 million. While this will certainly buy the company time to adjust to the low oil-price environment, will it be enough to stave off insolvency?

Low oil prices aren't the only contributor to financing issues

Formerly a major producer of heavy oil, Baytex repositioned itself in 2014 by purchasing **Aurora Oil & Gas Pty Ltd.'s** Eagle Ford shale holdings, rebalancing its production profile towards lighter crude. The acquisition cost nearly $3 billion, saddling Baytex with $2.3 billion in debt. Even though the transition was applauded by shareholders, the addition of billions in debt came right as oil prices started to precipitously decline.

By 2015, however, Baytex attempted to reduce its debt by issuing over 36 million shares at $17.35 each, bringing in about $600 million in fresh cash. With the shares currently trading at only $5, this was a savvy move by the company's management team. In all, the share issue reduced debt to $1.85 billion. While this was a necessary move, it still leaves the $1.05 billion company with mountains of debt.

Can the company afford a full transition?

After its latest acquisition, Baytex reaffirmed its focus on developing Eagle Ford oil production. It reduced its capital spending plan for the year by $75 million mainly in the company's heavy oil projects. For 2016, management expects to cut spending by another 25%.

By redirecting spending towards higher-quality projects, Baytex hopes to survive the current environment and boost shareholder returns in the long run. But can it survive until a full transition takes place?

As mentioned, the firm still has $1.8 billion in debt. However, the next debt maturity only comes due in 2020. Earlier this year, Baytex also renegotiated its debt covenants, giving them more spending flexibility to actualize management’s vision.

Most expect Baytex to survive, but an extended period of sub-$50 crude could put that in peril. Since June, oil prices have declined 20%, bottoming at only $40 a barrel. No matter what Baytex does to improve its position, investors must believe in higher oil prices to justify an investment in the company’s stock.

Short-term factors may give long-term investors a buying opportunity

As mentioned, you must believe in higher oil prices to buy into Baytex shares. If that’s the case, you could be getting a heck of a deal. Before the dividend cut, *Morningstar* estimated that over 10% of Baytex shares were held by income funds. Currently without a dividend, most of those funds have become forced sellers, regardless of their outlook for Baytex shares.

With Baytex shares down an additional 50% since the cut, patient investors can get in at a very attractive and possibly a very temporary entry point. Despite any of this, higher oil prices will still be needed for Baytex to service its debt.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

Category

1. Energy Stocks
2. Investing

Date
2025/08/26
Date Created
2015/10/30
Author
rvanzo