# Baytex Energy Corp.: Create Your Own 19.3% Yield

## Description

There are a lot of reasons to like **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) as a long-term play in the energy sector.

First, the company has its balance sheet under control. Yes, it does owe more than $1.8 billion in total debt, but much of that debt doesn't come due for a long time. The company has $350 million of bank loans that are due in June 2019 and then nothing until 2021. That gives it ample time to weather this current storm.



The company is increasing production in the Eagle Ford area of Texas, which has a current breakeven price of $30 per barrel. Production of heavy oil has a higher breakeven cost, but Baytex can still eke out a profit on its heavy oil production if crude is at $45 per barrel. The problem with heavy oil isn't production costs–it's the low price the market is assigning to the commodity. In a world awash with oil, nobody wants the heavy stuff.

The company has also lowered its exposure to crude prices by instituting a hedging program. Sure, this limits profits if oil recovers, but caution is far more important today.

In fact, there's really only one thing Baytex has going against it as a turnaround stock, and that's a lack of a dividend. Fortunately for investors, it's not that hard to create your own homemade dividend using options–a strategy that could yield 19% a year.

Here's how.

**Enter covered calls**

A covered call is a basic option strategy that allows investors to get additional income in exchange for limiting their potential upside.

It's easiest if I explain using a real-life example.

Baytex shares currently trade at $6.23 each. If an investor bought Baytex shares and then sold a covered call that obligated them to sell those shares at $7 each on September 16, they would get a premium worth $0.10 per share. This is collected immediately.

One of two outcomes can happen. If Baytex shares trade under $7 each in two weeks, the investor gets to keep the premium and their Baytex shares. This is ideal, since it means an investor can do this trade over and over again.

The other situation is if Baytex shares rise above $7 each, which is very possible. Remember, Baytex tends to do quite well when oil rallies. If that happens, the investor is forced to sell at $7 per share, even if Baytex shares have rallied to $7.50, $8, or even more.

But this isn’t the worst news. The investor would get a $0.77 capital gain along with the $0.10 option premium collected. This works out to an $0.87 profit on shares currently worth $6.23. That’s a total gain of 14% in just a couple of weeks.

Ideally, at least for covered-call writers, Baytex shares would stay between $6 and $7 per share for a while, allowing these investors to collect numerous option premiums. If we did a similar trade 12 times a year, the investment would yield 19.3% a year.

Or, to put it another way, 1,000 Baytex shares have the potential to spin off $1,200 per year in income. That’s not bad for an investment of $6,230.



Thousands of investors are using covered calls to really goose the amount of income they collect. Many choose to stick to blue-chip dividend-payers, but as you can see, there’s some great income potential in volatile oil stocks.

It’s not easy to ignore yields approaching 20%. It’s that simple.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:BTE (Baytex Energy Corp.)

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nelsonpsmith