Bombardier, Inc. vs Baytex Energy Corp.: Which Dividend Is Coming Back?

Description

Bombardier, Inc. (TSX:BBD.B) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) both suspended their dividends in recent years due to difficult cash flow situations.

With the two companies now on the mend, which one is likely to bring back the dividend?

Bombardier

Bombardier's decision to develop a new jet, the CSeries, was welcomed with fanfare when the project was initially launched, but years of delays and cost overruns took their toll on the balance sheet, and in early 2015, Bombardier was forced to suspend its dividend.

The company continued to struggle, and by early 2016, it looked like Bombardier might be headed for bankruptcy.

Why?

The sales team hadn't booked an order for the new jets since 2014, and despite US$2.5 billion in commitments from Quebec and the province's pension fund, investors worried the cash burn and US$9 billion in debt would be too much to overcome.

Bombardier then secured orders for 127 new CSeries planes from **Air Canada**, **Air Baltic**, and **Delta Air Lines**, bringing the order book well above the company's initial target.

The first CSeries planes were delivered in the second half of 2016, and more are expected to hit the runway this year.

That's good for cash flow and is a reason why the stock has recovered from below $1 per share to $2.50.

While investors are certainly cheering the stock's recovery, the return of the dividend might not happen anytime soon. Bombardier is still burning through cash and continues to carry the US$9 billion in debt.

The CSeries isn't expected to break even before 2020, so that might be a reasonable time frame to consider for a possible look at a renewed payout.

Baytex

Oil prices began to slide just after Baytex closed a large acquisition in June 2014. As a result of the purchase, the company entered the oil rout carrying too much debt, and by December of that year, management was forced to slash the dividend to preserve cash flow.

Things went from bad to worse and in August 2015; the remaining dividend was suspended completely.

Baytex also looked like it wasn't going to survive 2016. The stock, which had traded for $48 per share before the crash, bottomed out at $2 in January last year.

Oil prices have since recovered, and Baytex is living within its cash flow, but the company is still carrying significant debt and really needs oil prices to move higher and stay there to give it a chance to increase development and bring in the funds needed to improve the balance sheet.

The stock currently trades for close to $6 per share, so investors who had the guts to get in at the low are looking at some nice gains.

If oil prices take off, Baytex could use a rising share price to issue more shares and raise enough funds to pay down the debt. Once that happens, and if oil remains high enough, the business should generate adequate free cash flow to start paying a dividend again.

Should dividend investors bet on either stock?

At this point, both companies are on the mend, but they still have some serious cash flow hurdles to overcome before investors can expect to see the dividends return.

As such, I would search for other income opportunities today.

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