These Former Dividend Dynamos Could Soon Bring Back Their Payouts

Description

The oil industry has been going through one of the worst market downturns in decades. Plunging oil prices forced producers to make drastic cuts to ensure their survival; dividends are often among the first to be cut.

However, now that market conditions are beginning to improve, oil companies have started to find their financial footing. Many can generate enough cash flow to grow production with money left over. While these producers have plenty of options for that excess cash, reinstating a dividend could be a top choice.

Two Canadian producers that used to make paying dividends a high priority are **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), which might make them among the first to bring their payout back.

Not quite there … yet

Baytex Energy had been one of Canada's better dividend-paying stocks, sending its investors a rather generous cheque each month for more than a decade. However, the size of those payments started shrinking in early 2015 due to plunging oil prices before ceasing altogether by that October.

At the time, Baytex believed that this was a prudent step because it would minimize bank borrowings in a period of lower oil prices. Further, the company noted that it fully intended to reinstate the monthly dividend once commodity prices recovered to a supportive level.

Since that time, the company has worked hard to push down costs and strengthen its balance sheet. Because of that, the company is in the position where it can increase its 2017 capex budget by roughly $100 million, which will enable it to grow production 3-4% over last year's level. More importantly, that spending level roughly matches expected cash flow at current prices. Further, as prices increase, cash flow should follow suit.

At current prices, Baytex Energy doesn't expect to generate any free cash flow, meaning a dividend reinstatement is not imminent. However, should prices stabilize above $60 per barrel, that could be the trigger that allows the company to reinstate the payout.

The flexibility to respond

Fellow former monthly dividend payer Penn West also chose first to reduce and then suspend its dividend to stay afloat. However, because it had an even more troubling balance sheet, Penn West had no choice but to sell a slew of assets, including two core positions, which it used to right-size its balance sheet. These efforts have paid off, and now the company is in the position where it can grow production.

For 2017, Penn West plans to spend $180 million on capex — double what it spent last year — which is enough money to increase production 15%. However, unlike Baytex Energy, Penn West can achieve that healthy growth rate while still generating excess cash flow. In fact, the company only intends to use 80% of its available funds from operations in 2017. That leaves it with ample cash flow to reinstate the dividend this year should it choose to do so.

Investor takeaway

Both Baytex Energy and Penn West were outstanding income stocks before the oil market downturn. While neither will likely get back up to their peak anytime soon, both could at least reinstate their dividends later this year. As such, interested investors have the opportunity to buy these stocks before that happens and get out in front of other income investors before they start bidding up these stock prices.

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