



Encana's Dividend Looks Unsustainable – They're Not Alone

Description

A recent piece in the Wall Street Journal indicated that because of **Encana's** (TSX:ECA) high payout rate, the company's dividend could be "a casualty of any strategy shake-up" once the company finally hires a new CEO.

In my mind, this assessment is bang on.

Encana's \$588 million dividend payout represented about 20% of last year's cash from operations (CFO). And, the company generated negative free cash flow (CFO – capital expenditures) of about \$500 million over the past 12 months. This means the dividend is effectively being paid by issuing debt. Not a sustainable formula.

There's more

The scariest part of this story is that ECA is not the only one of its Canadian peers that's paying out a high proportion of its operating cash flow in dividends. According to Capital IQ, of the 21 energy producing companies in the S&P/TSX Composite that pay a dividend, the average payout from operating cash flow was 28% over the past 12 months. At 20%, Encana looks relatively good!

The WSJ article indicates that most E&P companies payout 5% of their operating cash in dividends. We'll assume their sample was U.S. based as none of the Canadian energy producers met this 5% level.

Tabled below are the 4 seemingly most sustainable dividends in Canada's energy patch based on payout in relation to operating cash flow over the past 12 months.

Company Name	Market Cap	Payout Rate	Dividend Yield
Petrominerales (TSX:PMG)	\$497	6.5%	8.5%

Pacific Rubiales Energy (TSX:PRE) <i>Source: Capital IQ</i>	\$6,948	7.2%	2.1%
Canadian Natural Resources (TSX:CNQ)	\$32,683	7.8%	1.7%
Whitecap Resources (TSX:WCP)	\$1,406	9.8%	5.8%

If you're an investor in Canada's energy patch and are reliant on dividend cheques from this space, you need to be wary of this issue. It's worth your while to review your holdings and examine their cash flows to get a sense for how sustainable these payouts actually are.

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Fool contributor Iain Butler does not own any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

- 1. Investing

TICKERS GLOBAL

- 1. TSX:CNQ (Canadian Natural Resources Limited)
- 2. TSX:FEC (Frontera Energy Corporation)
- 3. TSX:WCP (Whitecap Resources Inc.)

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