2 Standout Large-Cap Dividend Stocks in Canada's Oil Patch

Description

Are you hunting for lower-risk large-cap dividend stocks in a sector where many of the major operators appear undervalued? Then look no further than Canada's oil patch, where the returns over the past two years have lagged a number of other sectors and the broader S&P/TSX composite index.

But a combination of higher crude prices, growing investment, and narrowing benchmark oil prices is set to change this. Growing revenues and margins will boost profitability. Dividend increases should follow.

Today, I want to profile two of Canada's largest energy companies that I believe have solid growth potential. Also, each has a dividend yield in excess of the 10-year government bond and inflation rate, making them attractive yield and growth plays.

Cenovus Energy: An energy giant that has established a solid base
Cenovus Energy (TSX:CVE, NYSE:CVE), with a dividend yield of over 3%, offers considerable potential for investors. It reported some solid financial results for the third quarter. In comparison to the same period last year, revenue grew 12% and net earnings shot up 28%.

But the good news doesn't end there. Since inception, Cenovus has regularly increased its dividend, with an annual compound growth rate of 4% — higher than Canada's annual inflation rate over the past 10 years.

Cenovus also has a solid resource base, with proved reserves of more than 2 billion barrels of crude, and it has the capacity to continue growing production with the Foster Creek, Christina Lake, and Narros Lake projects under development.

These factors bode well for Cenovus to continue growing production. Revenues and profits — and continued dividend hikes — should follow suit.

Husky Energy: A turnaround play now rewarding investors
Husky Energy (TSX:HSE) is another large energy player that is rewarding investors with a healthy dividend and solid growth prospects. Husky is Canada's third-largest energy company and pays a dividend with an attractive yield — almost 4%.

But an even more compelling reason for investors to choose Husky is its continuously growing dividend — it's grown its dividend at an annual compound growth rate of almost 10% since inception (a rate faster than inflation).

Like Cenovus, Husky has a solid asset base with proved reserves of more than 1 billion barrels of oil and a diverse range of projects under development. But what makes Husky particularly compelling relative to Canada's other oil majors is its portfolio of globally diversified assets. These include considerable quantities of higher-margin light-sweet crude, which, unlike bitumen, does not trade at a considerable discount to oil's spot price.

Husky delivered good results in its most recent quarter. Revenue shot up 11% year over year, to $5.8 billion. Earnings before interest, taxes, depreciation, and amortization (EBITDA — a key measure of core profitability) also grew, up by 4% for the same period.

It also has a range of projects under development, which I believe will continue to add value for investors and drive higher production. These include a recent significant offshore light oil discovery in Newfoundland, as well as its landmark Liwan Gas project in Asia moving closer to production. Both have the potential to significantly boost reserves.

Foolish final thoughts
Both Husky and Cenovus are set to reward patient investors with continued capital appreciation. But I believe it's their consistently growing and credible dividend yieldsthat makes these two large energy players attractive lower-risk investments.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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