The 3 Top Dividend Yields From the Energy Sector

Description

When scouring the Canadian stock market for dividends, one has to look no further than energy – in the large-cap **S&P/TSX 60** index, the top three dividend yields come from that sector. Below we take a look at each of these three dividends to determine which are truly worth buying and which may not be sustainable.

1. Crescent Point Energy

With a dividend yield of 6.3%, it's not easy to resist buying shares of **Crescent Point Energy** (TSX: CPG)(NYSE: CPG). But there's a catch.

Crescent Point's problem is that it doesn't make enough money to cover the dividend. Last year, net income totaled $0.38 per share, and dividends totaled $2.76 per share. But Crescent Point has an ace up its sleeve: its dividend reinvestment plan (DRIP). Under the DRIP, investors can elect to receive their dividend in cash, and get a 5% discount if they choose to do so.

In 2013, about 60% of the shareholders chose to receive their dividends in shares. And who funded that sweet deal they were getting? It was of course the shareholders who wanted the cash. So the moral of the story is quite simple: If you believe in Crescent Point, buy the stock and take your dividend in shares. If you want a steady stream of cash income, look elsewhere.

2. Canadian Oil Sands

Canadian Oil Sands (TSX: COS) is the largest shareholder (at 36.74%) of the Syncrude project. Syncrude is not a bad project: it produces light oil, allowing for premium pricing, and according to **BMO** is the lowest-cost oil sands mining project in Canada.

Unlike Crescent Point, Canadian Oil Sands can afford its dividend just from its net income. In 2013, earnings per share came in at $1.72, while dividends per share totaled $1.40. And the shares still yield 6.1%.

The problem with Canadian Oil Sands is growth, or lack thereof – in 2013, production actually shrank by 7%. So you won't find much excitement with this company. But it has a cheap share price, still trading at 2009 levels, and a nice dividend. Income-focused investors should probably choose Canadian Oil Sands over Crescent Point.

3. Penn West Petroleum

If there's a "show me" stock in Canada's energy sector, it's **Penn West Petroleum** (TSX: PWT)(NYSE: PWE). The company has overstretched itself in the last few years, resulting in a highly levered balance sheet. New CEO David Roberts has been trying to sell non-core assets, but that hasn't been easy, and investors have been disappointed by the sales prices of these assets.

The stock has lost 20% per year over the past three years. So even after a dividend cut last year, the stock still yields 5.7%. But is it sustainable?

In 2013, Crescent Point had a net loss of $1.72 per share, but that included a bunch of non-cash items. More importantly, free cash flow totaled $0.46 per share. But dividends declared totaled $0.95 per share. Like Crescent Point, Penn West has a DRIP that helped soften the blow, but the company still had to use asset sales to help fund the dividend. That's a scary position to be in as a shareholder.

So if you're seeking a safe, strong dividend from the energy sector, it looks like Canadian Oil Sands is your best option.

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