3 Dividend Traps From the Energy Patch

Description

In today's low-yield environment, there's nothing more enticing than a big dividend. In the Canadian energy sector, there are plenty of companies that have very nice payouts, so it can be tempting to fill your portfolio with these stocks.

However, not all dividends are created equal, and some are worth avoiding altogether. Below are just three examples.

1. Penn West Petroleum

Even after a dividend cut last year, **Penn West Petroleum** (TSX: PWT)(NYSE: PWE) still has a dividend that would make most income-oriented investors very happy, which is currently yielding 5.2%. However, the company still has its fair share of problems.

For one, the company is not especially profitable, losing $0.20 per share in the last quarter alone. Part of this is due to losses from the sale of assets, but in any case the company does not make enough cash flow to cover its dividend. This kind of situation often occurs when a company runs into trouble, which Penn West has done in recent years. Even though the company can no longer afford its dividend, there will always be pressure to keep it as high as possible. You're better off avoiding these kinds of situations.

2. Twin Butte Energy

If a 5.2% dividend from Penn West isn't enough, how about a 10.5% yield from **Twin Butte Energy** (TSX: TBE)? Whenever you see a dividend this high, you should know that there is always a catch.

In this case, Twin Butte is not only unable to afford the dividend, but it isn't even profitable at all. Last year, the company lost $0.44 per share, but still paid out $0.19 per share in dividends. This kind of payout strategy does no one any favours, including Twin Butte's investors. Last year, the company had to raise $81 million in debt and $66 million from new shares to help cover its operations and payout.

Like Penn West, this is a dividend trap you should keep your hands off of.

3. Crescent Point Energy

Last but not least, **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) has a very tempting yield of 6.2%. But again like the others, Crescent Point does not have enough cash flow to afford the dividend.

Crescent Point encourages investors to take their dividends in the form of shares, even offering a 5% discount to those willing to do so. It’s a strategy that punishes the shareholders who want their dividends paid in cash. If you’re looking to bet on the company itself, then you should buy the shares and take your dividend in stock. But if you’re looking for a nice steady income, you should look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Investing

Date
2025/09/10
Date Created
2014/06/11
Author
bensinclair