2 Energy Companies With Impressive Dividend Yields

Description

In this age of ultra-low interest rates, many investors struggle to find attractive income-paying investments. Looking at the bond market leaves me feeling discouraged, as current yields leave much to be desired. A government of Canada 10-year bond yields just over 2%, for example, while **Bank of Nova Scotia's** A-rated 10-year bond yields just under 2.5%. Higher-risk bonds in the energy space yield closer to 3.5%.

What if investors want more yield, more income, for their retirement? There are other options to consider. Let's take a look at two energy names that have attractive dividend yields: **Canadian Oil Sands** (TSX: COS), with a 6% yield, and **Baytex Energy** (TSX: BTE)(NYSE: BTE), with a 5.55% yield.

All over the news these days, we hear of the fear that much needed infrastructure pipelines will not be built. However, at the end of the day, investors can be confident that this issue will be resolved because, simply put, there is too much money to lose if they are not built and too much money to be made if they are.

Are these yields sustainable?

For many years, Canadian Oil Sands has been plagued with rising costs, bottleneck issues, and production issues. In the first quarter of 2014, operating expenses increased 14% to $46.91 per barrel, reflecting higher natural gas prices, maintenance activities, and increased drilling, and Syncrude production continued to fall short of expectations. In fact, the company lowered its 2014 Syncrude production estimate to 100 million barrels. Yet these issues seem to be priced into the stock at this time, and with a dividend yield of 6%, investors are being paid for the risk. The all-in payout ratio, defined by operating cash flow less capital expenditures less dividends, is expected to rise, and will remain above 100% in the short term.

It is not without its risks, but the yield is attractive. Syncrude is a world-class mine, and the company has made big investments to improve its reliability and output. These improvements should slowlybegin to affect the numbers in the next year or so. Furthermore, the company's balance sheet is quitestrong, and Syncrude's proved plus probable reserve life is 23 years.

Baytex Energy currently yields 5.55%, and while it does not have the production and cost increase issues that Canadian Oil Sands is facing, the all-in payout ratio is also high, at over 100%. However, production at Baytex is increasing and costs are decreasing, so investors can feel confident that its dividend is sustainable. In fact, in the first quarter of 2014, production increased 15%.

Furthermore, management has been proactive in acquiring Aurora Oil & Gas in the attractive Eagle Ford area, making it a larger, more diversified energy producer. Management has also been proactive in increasing its hedge book at a time when oil prices are historically high — 74% of its hedge book is hedged at an oil price of $98.

The acquisition of Aurora Oil & Gas, a light oil producer in the liquids-rich Eagle Ford area of south Texas, adds 25,000 barrels of oil equivalent per day with room for low-risk production growth and reserve additions. It has positioned Baytex as a more diversified producer, with heavy oil now accounting for just over 50% of production instead of 75%, and has strengthened its production growth profile going forward.

Consistent with its strategy of providing investors with growth and income, Baytex will institute a 9% increase in its monthly dividend to $0.24 per share after the acquisition closes.

What should investors do?

In the search for yield, investors should look at other options besides traditional fixed-income investments. These two companies offer a way to earn increased income and are reasonable additions to a well-diversified portfolio for that extra kick in income earnings power, with Canadian Oil Sands being the riskier option of the two.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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