One Dividend From the Energy Patch You Can Actually Rely On

Description

In Canada's energy patch, there are some (too many) companies that pay out more in dividends than they make in net income. Different companies use different methods to pull this off, but none of them are truly sustainable.

Some companies issue more equity in order to afford their dividend payouts. Take **Crescent Point Energy** (TSX: CPG)(NYSE: CPG). The company has a very attractive yield of 5.9%. But just last year, the company made only $0.37 in earnings per share – not enough to afford its dividend of $0.23 per month.

So how does Crescent Point manage this? It's actually quite simple – the company encourages its investors to take their dividends in shares rather than cash, even offering a 5% discount to those willing to do so. Partly as a result of this tactic, Crescent Point's shares outstanding increased by nearly 40% just from 2011 to 2013.

Another example is **Penn West** (TSX: PWT)(NYSE: PWE), which last year made $0.46 per share in free cash flow. Yet despite a dividend cut, the company paid out $0.82 per share to its shareholders last year. So how did Penn West afford this?

Well, Penn West has been selling off assets, which last year netted the company $525 million (and another $213 million in the first quarter of this year). As a result, production in the most recent quarter was down 22% year-over-year. Needless to say, this is not a strategy the company can use forever.

An exception to the rule

There is one energy company in particular that pays out a dividend that is both attractive (currently 5.8%) and sustainable: **Canadian Oil Sands** (TSX: COS). To illustrate, last year Canadian Oil Sands paid out $1.40 per share in dividends, less than the $1.72 per share it made in net income. So what is it that makes iy different than all the others?

Canadian Oil Sands is the largest owner of Syncrude (a large oil sands operation), but has no real growth ambitions – just last year production decreased by 7%. This is usually not what energy investors seek out, and as a result the stock price is depressed. In fact at $24 per share, the company is trading below where it was in 2009, when we were just starting to recover from an economic disaster.

So this is certainly not the most exciting company in the energy space, but that's not what you should be looking for anyway. If you're instead looking for a nice solid dividend, you should consider adding this name to your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date
2025/09/10
Date Created
2014/06/18
Author
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