3 Top Dividend Stocks From the Oil Patch

Description

CDN_Ops5 Image not found or type unknown Here's a statistic for you: Canada's oil reserves are estimated to be 179 billion barrels. More incredibly, that represents more than *half* of the world's oil reserves available to private investment.

Clearly that is an enormous store of wealth. That means for income hungry investors, some of the best investment ideas are coming out of the oil patch. So for those looking to tap the nation's energy bonanza, here are are three top names to get you started.

Suncor

For years, **Suncor** (TSX: SU)(NYSE: SU) has been the largest oil company in Canada. Now, it's finally the most profitable.

Under the leadership of new Chief Executive Steve Williams, the company is no longer focused on bold, exciting projects. Rather, Williams has pledged to smooth out capital spending by wringing more bitumen out of existing operations, while controlling costs and improving operational reliability at its oil sands facilities. Every dollar reinvested into the business must now earn a sufficient return or be given back to shareholders.

This isn't the exciting wheeling and dealing the energy industry is known for. However, it has been a profitable formula for investors. Since 2011, Williams has repurchased over 11% of the company's outstanding shares and more than doubled the size of the quarterly dividend to $0.23 per share.

More dividend hikes are likely to follow. In 2013, Suncor doled out $1.1 billion in dividends alone. That's nothing to sneeze at, but the company earned nearly $3.9 billion during that same year. That means the company paid out just a third of its earnings, to say nothing of its growing cash flow.

Enbridge

Enbridge (TSX: ENB)(NYSE: ENB) is a regular member of Canadian dividend portfolios. Since 1953, the company has paid a dividend every year to investors. Even better, Enbridge has increased its payout 19 years in a row, and today the stock yields 2.8%.

But that's nothing compared to what might be coming next. Thanks to new drilling technologies like steam assisted gravity drainage and horizontal drilling, the amount of oil and gas currently pulled from the oil sands and shale deposits is only tiny fraction of what we'll likely see in the coming years. A ccording to estimates by the Canadian Association of Petroleum Producers, Western Canadian oil production is expected to grow threefold by 2030.

Companies like Enbridge that collect, ship, and store all these hydrocarbons are poised to make a fortune. The company has over $8 billion in secured expansion projects over the next two years, including hundreds of kilometres in new pipelines and expansions to existing capacity. Today, Enbridge is on track to grow its dividend 10% to 12% annually. But with so many projects there's the potential to accelerate dividend growth

Canadian Natural Resources

Boosted by rising oil sands production, **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ) has increased its payout at a 27% compounded annual clip over the past decade, during which time the dividend has grown eleven-fold. And lately, the hikes have been getting bigger. In May, management hiked its payout another 12.5%, a sign that the executive team sees more good times to come.

Admittedly, the stocks 2% yield might not be high enough to attract the attention of the most discerning investors. However, free cash flow could hit $5 billion annually by 2018, from $1 billion this year, once the Horizon oil-sands facility expansion is completed. That provides plenty of room for more dividend hikes in the years to come.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:ENB (Enbridge Inc.)
6. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/07/05
Date Created
2014/06/26
Author
rbaillieul