



2 Dividend Champions in the Patch You Can Rely on

Description

Soaring oil prices and growing Canadian crude production are fast turning a number of players in the patch into cash cows for investors. As revenues, cash flow, and bottom lines grow, so too will dividend payments as companies seek to reward investors and unlock further value through exploiting their oil assets.

It is highly likely this will continue over the long term as demand for energy, and petroleum products in particular, soars, fueled by the rapid growth of major emerging economies including China, India, and Brazil. However, investors should not only be concerned with yield but also seek out those players in the patch with solid growth prospects, strong balance sheets, and sustainable dividends that are consistently growing.

Now let's take a closer look at two dividend-paying players in the patch that should form part of every income investor's portfolio.

This integrated energy major has raised its dividend for the last 14 consecutive years

One of the largest oil sands players in the patch, integrated energy major **Canadian Natural Resources** ([TSX: CNQ](#))([NYSE: CNQ](#)) has consistently raised its annual dividend for the last 14 consecutive years. This gives its dividend a stunning compound annual growth rate of 23%, which is well in excess of the annual average Canadian inflation rate over that period, indicating that investors are receiving a real return well in excess of inflation.

Despite these consistent increases, it still has a very conservative payout ratio of a mere 28%, which highlights the sustainability of the dividend. It also indicates that Canadian Natural Resources is focused on reinvesting a considerable portion of its profit back into its operations, allowing it to further develop its asset base so as to boost oil reserves and production.

More importantly, operational cash flow continues to grow on the back of stronger fundamentals, in particular higher crude prices and narrowing price differentials between Canadian crude blends and West Texas Intermediate. For the first quarter of 2014, cash flow shot up a very healthy 20% compared to the previous quarter and a massive 37% in comparison to the first quarter of 2013.

I also expect to see continued strong growth in the company's cash flow as new projects come online and oil production continues growing. Higher crude prices because of the crisis in Iraq and narrowing price differentials between Canadian heavy crude and WTI, which have already fallen 14% since the start of 2014, will also boost operational cash flow.

These things further highlight the sustainability of the company's dividend and increase the likelihood of Canadian Natural Resources further increasing its annual dividend.

This integrated energy major has a solid history of dividend growth

Another dividend champion operating in the patch is **Suncor Energy** ([TSX: SU](#))([NYSE: SU](#)), Canada's largest integrated energy company. It has a solid history of also consistently raising its dividend, which has grown tenfold over the last 11 years, giving it a modest yield of 2% but a spectacular compound annual growth rate of 24%.

More importantly, like Canadian Natural Resources, Suncor has a very conservative dividend payout ratio of 29%, highlighting the sustainability of the dividend.

This accentuates Suncor's policy of continuing to boost both its oil reserves and production by continuing to reinvest a significant portion of its profits in developing its existing assets and acquiring new assets.

Another compelling aspect of Suncor's operations is not only its increase in operational cash flow in the first quarter of 2014 when compared to the equivalent quarter in 2013, but also the continued growth in return on capital employed. For the first quarter of 2014, ROCE grew a modest 1.1% quarter over quarter but an impressive 5.5% year over year to a solid 12.6%.

This shows that Suncor is well positioned to continue increasing its dividend while maintaining a conservative payout ratio and continually reinvesting in the development of its operations.

Both companies, while paying dividends with relatively modest yields, have a solid history of continually growing their dividend payments at a rate well in excess of the average annual inflation rate over the same period. When coupled with their ability to continually generate higher operating cash flow in an operating environment with stronger fundamentals, it is clear they can continue rewarding investors through further dividend hikes. Both are dividend champions that should form the cornerstone of any income-focused portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)

2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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