3 Large Caps in the Patch Gushing Dividends

Description

Dividend investing is not only about identifying companies with monster yields. It is also about identifying those companies best positioned to their dividend yield by growing their revenues, cash flow, and ultimately bottom line. While a high yield may appear appetizing, it is representative of the risk associated with investing in the company.

One way to reduce this risk, particularly when investing in dividend stocks in capital intensive industries such as oil exploration and production, is to target large caps — stocks with market capitalizations in excess of $10 billion. These companies typically have stable operations and the deep pockets needed to continue developing their oil assets even if there is a sustained downturn in the price of crude, meaning they are more than likely to maintain their dividend payments.

Let’s take a closer look at three large-caps that are gushing dividends, have solid growth prospects, and boast yields well in excess of the risk-free rate of 2.3% paid by Canadian government 10-year bonds.

This oil sands operator pays a juicy dividend yield

Owner of the largest stake in the Syncrude project, **Canadian Oil Sands** (TSX: COS) pays a dividend with a yield of 5.9% coupled with sustainable payout ratio of 81%, making it an attractive holding for dividend-hungry investors.

However, more compelling is Syncrude — bitumen upgraded into light sweet crude — which trades at a premium to West Texas Intermediate. For the first quarter 2014 this premium was just over 7% and is a key driver of Canadian Oil Sands’ ability to generate a healthy margin for each barrel of Syncrude produced, with an operating netback of $52 per barrel during this period.

This netback is well above the average of around $42 per barrel for oil producers operating in North America and bodes well for Canadian Oil Sands to continue generating solid profit margins and the sustainability of its dividend.

The premium also gives Canadian Oil Sands an advantage over other oil sands producers that don’t upgrade their heavy crude or bitumen production. Canadian heavy crude trades at a significant discount to WTI, which is expected to widen. This advantage becomes even more striking with WTI prices set to soften as U.S. light sweet crude production continues to surge on the back of the shale oil boom.

Despite issues surrounding the costs and complexity of maintaining the upgrader that has seen costly and unexpected production outages, Canadian Oil Sands is well positioned to continue cashing in higher crude prices. As such it will continue generating solid profit margins, boding well for the sustainability of its dividend.

A light oil heavyweight with a monster yield

Light oil heavyweight **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) continues to pay a monthly dividend with a particularly tasty yield of 6%, one of the highest in the patch. But it does come with a catch as the dividends paid are significantly higher than its net income, leaving some analysts to question whether it is truly sustainable.

However, one of the company’s key strengths has been its ability to consistently generate growing cash flows from higher crude production and use those cash flows to fund the dividend payment rather than debt or asset sales. This sees it generating a healthy profit margin for each barrel of crude it produces with a first quarter 2014 netback of $52.65 per barrel, one of the highest in the patch.

It is also highly likely this success will continue with the company sitting on a solid asset base coupled with recently having made yet another accretive acquisition.

This integrated energy major is already accessing alternate refining markets

Canadian integrated oil major **Husky Energy** (TSX: HSE) not only pays a quarterly dividend with a healthy yield of 3.5% coupled with a sustainable payout ratio of 65%, but has taken the lead in accessing alternate export markets to the U.S.

It has already established lucrative contracts to sell natural gas to China from its Liwan gas project in the South China Sea and exported crude to India. It also recently made significant oil discoveries in the Flemish Pass in the North Atlantic with partner **Statoil**.

All of this bodes well for Husky to continue growing oil production and cash flows, boosting not only the sustainability of its dividend but the likelihood of a dividend hike.

Investing in energy isn’t all about the oil patch and there are alternative energy investments out there that investors can consider.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/09/10
Date Created
2014/07/08
Author
mattdsmith