



3 Dividend Champions From the Energy Patch

Description

Canada's energy patch is one of my favourite places to look for solid companies paying credible dividend yields. Not only does the oil industry have high barriers to entry, which helps to reduce competition, but also many of the major players have wide economic moats by virtue of their size and integrated operating models.

Integrated operating models including crude production, refining and marketing allows them to better manage the price spreads between various crude blends and benchmark prices as well as margins. This allows the companies to continue generating strong revenues and cash flows, which can be used to reward investors.

All three companies have solid economic moats and integrated operating models, which allows them to maximize their margins from a diverse portfolio of petroleum assets, while rewarding investors with sustainable dividends.

1. Suncor Energy Inc.

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) continues to remain one of my favourite dividend champions in the patch, despite reporting a shocking 69% plunge in profit for Q2 2014. Even after reporting this plunge, Suncor hiked its dividend 22%, illustrating its commitment to rewarding investors.

This gives Suncor a dividend yield of 2.4%, which may not be breathtaking for some investors, but it is clearly sustainable with a payout ratio of 43%. Suncor's dividend continues to grow at a rapid rate, with a compound annual growth rate of 13% since inception.

When such a low payout ratio is coupled with solid cash flow growth and an improving return on capital it is likely there will be further dividend hikes to reward investors.

2. Canadian Natural Resources Limited

Canadian Natural Resources Limited ([TSX: CNQ](#))([NYSE: CNQ](#)) continues to report solid operational results. For Q2 2014, it reported record quarterly crude liquids production of 119,200 barrels of crude

daily. This translated into solid cash flow growth for the same period, up a healthy 18% compared to the previous quarter and a monster 58% compared to the equivalent quarter in 2013.

The company also declared a quarterly dividend of \$0.225, giving it a yield of just under 2%, along with a very sustainable payout ratio of 30%. More impressively, Canadian Natural Resources' dividend has grown at an extraordinary rate since inception in 2001 with an astounding compound annual growth rate of 25%.

But like Suncor, Canadian Natural Resources' diverse asset base, efficient operations and proven strategy deliver increasing free cash flow. This is expected to continue with the company actively focused on transitioning to longer-life, lower-decline assets, allowing it to maximize value for its shareholders.

3. Husky Energy Inc.

Integrated energy major **Husky Energy Inc.** (TSX: HSE) continues to prove the worthiness of its inclusion as a dividend champion. It was the first player in the patch to ship crude to India and is a partner in the largest offshore natural gas project in the South China Sea.

Husky pays a dividend with a yield of 3.7%, along with a payout ratio of 60% and its steadily growing production bodes well for its sustainability. The dividend has also grown impressively with a compound annual growth rate of 9% since inception in 2001.

In fact, solid cash flow growth, a stronger balance sheet and consistently solid production growth indicates that Husky is open to considering a major transformational acquisition, unlocking further value for shareholders. While Husky may be smaller than its peers Suncor and Canadian Natural Resources, the company continues to go from strength to strength and hasn't hesitated to take some calculated risks in order to boost its portfolio.

All three players in the patch are worthy dividend champions and should be considered as core holdings in 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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