Why TransCanada Corporation's 3.3% Dividend Is Better Than Penn West Petroleum Ltd.'s 8.5% Dividend

Description

When searching for dividend stocks in Canada, you can find some companies with a very juicy yield. Many of them come from the energy sector. But these high-yielding dividends are often on very shaky ground, and you should be very careful before jumping in.

On that note, below we highlight one example of a big dividend you should avoid and one with a lower dividend to buy instead.

A big dividend to avoid: Penn West Petroleum Ltd.

Penn West Petroleum Ltd. (TSX: PWT)(NYSE: PWE) actually has the highest dividend of any company on the **TSX 60**, currently standing at 8.5%. So if you're looking for a big income stream, this could be a very tempting name.

Unfortunately, this dividend is unsustainable. In fact, if you look at 2013, the company funded its dividend mainly from $540 million worth of asset sales (in 2012, the company raised a staggering $1.6 billion this way). Of course, as a result, production has come down significantly — in the first six months of 2014, production decreased 23% from the first half of 2013.

Penn West has continued to sell assets in 2014 (and has come under criticism for not getting a fair price for these assets). This will put further pressure on not only production numbers but the dividend, too.

The market seems to have recognized all of this; after all, the dividend wouldn't yield over 8% if the market believed the payout to be safe. And a dividend cut wouldn't be unprecedented, either. Penn West cut its dividend by 40% in 2010 and another 48% last year.

Granted, the company could conceivably turn itself around, and the shares would skyrocket if that happened. But this isn't the kind of bet you should be making in a dividend portfolio. You're better off avoiding the stock.

A lower dividend to buy instead: TransCanada Corporation

If you're searching for dividends, then **TransCanada Corporation**'s (TSX: TRP)(NYSE: TRP) 3.3% yield may not look very attractive. But it's still a better dividend than Penn West's.

This is partly because TransCanada's revenues and earnings are much more reliable. The company operates critical infrastructure, makes money off long-term contracts, and generally isn't exposed to commodity prices. This makes dividend payments much easier to manage.

Secondly, the company pays dividends that are clearly affordable. More specifically, the $1.92 annualized dividend is easily within the $2.42 in net income per share earned last year. So it should surprise no one that TransCanada is able to raise its dividend so consistently. Just look at the past five years — over this time, its dividend has been raised by $0.02 per share every year. Meanwhile, Penn West's dividend has gone from $0.15 per month in 2009 to $0.14 per quarter today.

So at the end of the day, you don't always want the bigger dividend. Instead you want payouts you can count on. Three more are profiled in the report below.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/13
Date Created
2014/10/07
Author
bensinclair