Your Instant 3-Stock Income Portfolio Pays 7%

Description

The recent pullback in the energy sector is giving long-term investors the rare chance to buy three big oil companies that pay solid 7% dividends.

Here's why I think income investors should consider **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG), **Baytex Energy Corp.** (TSX: BTE)(NYSE: BTE), and **Canadian Oil Sands Ltd.** (TSX: COS) right now.

Crescent Point Energy Corp.

Crescent Point is a cash flow machine. The company consistently adds quality production through strategic acquisitions and a very successful drilling program. In a recent statement, Crescent Point said it expects 2014 cash flow to be 16% higher than 2013.

The company's business model often comes under fire from analysts because Crescent Point has a payout ratio that exceeds 100%. By using the high dividend as an incentive, it is able to consistently raise equity to fund takeovers and capital projects. Record cash flow in the last quarter brought the payout ratio down to the lowest level in its history. Crescent Point has never cut its dividend and the payout of $2.76 should be very safe going forward. The dividend yield is 7%.

Weak oil markets have put pressure on the shares in recent weeks, but Crescent Point has put an aggressive hedging program in place to protect earnings. At this point, the stock is probably oversold.

Baytex Energy Corp.

Baytex is a crude oil and natural gas producer with Canadian assets located in the Western Canadian Sedimentary Basin. The U.S. operations are focused on the Eagle Ford and Williston Basin plays.

High-margin crude oil and natural gas liquids account for close to 86% of total production at Baytex. The key point of interest for investors right now is the recent acquisition of Aurora Oil and Gas Limited. The $2.8 billion purchase added more than 22,000 net acres of property in the resource-rich EagleFord development zone.

Baytex increased its dividend to $2.88 when the deal closed. The payout ratio is still under 50% and a rebound in oil prices could see Baytex raise the distribution next year. The current dividend yield is 7%.

Canadian Oil Sands Ltd.

Canadian Oil Sands owns nearly 37% of the massive Syncrude oil sands mining project. The company is a great way for investors to bet on the long-term production of valuable light, sweet crude oil. The Syncrude facility also has its own power-generation station and actually exports excess power to Alberta's electricity grid.

The company reported Q2 2014 net income of $176 million, significantly lower than the $219 million realized in Q2 2013. Syncrude experienced an unplanned shutdown at Coker 8-1, and Coker 8-2 was out of service for planned maintenance. The resulting operating expense per barrel increased to $59.64 for the quarter from $43.23 in Q3 2013.

The second quarter was certainly ugly, and the subsequent drop in oil prices has continued to put pressure on the stock.

For long-term investors, this is a good opportunity to pick up the shares. The two cokers are operating at peak performance again and Canadian Oil Sands is nearing the completion of two large capital projects. The Mildred Lake Mine train replacement is almost finished, and the Centrifuge Tailings Management project should be in service in the first part of 2015.

The completion of these projects will free up cash flow that can be allocated to the dividend. Canadian Oil Sands pays a dividend of $1.40 per share that yields 7.1%.

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2. TSX:BTE (Baytex Energy Corp.)
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