



## Crescent Point Energy Corp. vs. Canadian Oil Sands Ltd.: Which Is the Best Income Investment?

### Description

Canadian energy companies are having a tough time these days. Record production coming from shale plays in the U.S. and fears about global growth are driving West Texas Intermediate (WTI) and Brent oil prices toward two-year lows.

Income investors looking to the energy sector for healthy dividends are wondering if some of the larger payouts are at risk. **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG) and **Canadian Oil Sands Ltd.** (TSX: COS) pay two of the largest dividends.

Let's take a look at both companies and see if one is a better option for new investors.

### Crescent Point Energy Corp.

Crescent Point has done an excellent job of growing production through smart acquisitions and the successful exploration of its vast assets in resource-rich regions.

In 2014, the company has spent nearly \$2 billion on strategic takeovers and allocated another \$2 billion to capital projects. Drilling has been very successful at Crescent Point's Torquay properties in Saskatchewan and the Uinta Basin play in Utah is shaping up to be a fantastic development. The company expects to see a 16% increase in year-over-year cash flow by the end of 2014.

Crescent Point's leaders run a very efficient operation, but they take a lot of heat for using a controversial business model. The company pays out more than 100% of free cash flow as dividends, and regularly taps the debt and equity markets to fund its capital programs. The payout ratio has come down significantly in the past two years, hitting a record low in the most recent quarter, but it is still very high.

Crescent Point's netback for the second quarter was \$54.75 per barrel of oil equivalent (BOE) based on an average selling price of \$91.83/boe.

The company has never cut its dividend. The distribution is \$2.76 per share and yields about 7.7%.

### **Canadian Oil Sands Ltd.**

With its 37% interest in the Syncrude mining project, Canadian Oil Sands is a long-term play on the production of light, sweet crude oil.

Unlike Crescent Point, Canadian Oil Sands had a rough ride in the second quarter of 2014, as year-over-year net income dropped by nearly 20% to \$176 million. Shut downs at Syncrude's Coker 8-1 and Coker 8-2 facilities meant lower output and higher operating costs. As a result, operating expenses per barrel shot up to \$59.64, from the year-ago rate of \$43.23.

Canadian Oil Sands has two capital-intensive projects that are almost finished. The Mildred Lake Mine train replacement and the Centrifuge Tailings Management project should both be completed and in operation by early 2015, freeing up cash flow that could be used to maintain the dividend.

Canadian Oil Sands pays a dividend of \$1.40 per share that yields 7.7%.

### **Which is the better buy?**

WTI is trading around \$82 per barrel. As long as oil prices stabilize near current levels, the dividend is probably safe at both companies. If crude continues to drop and settles in the \$50 to \$60 range, the payouts will be at risk. At the moment, Crescent Point looks like a safer bet.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

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

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