Why Cenovus Energy Inc. Still Has a Better Dividend Than Crescent Point Energy Corp.

Description

If you're looking for big dividends, then Canada's energy sector offers plenty of tempting choices. And with stock prices declining so rapidly in the sector, these big yields have gotten even bigger.

Take **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG) as an example. The company is well-known for its big payout, and thanks to a share price decline – more than 25% since late June – the dividend now yields 7.8%. Very tempting indeed.

But there are still much better dividends in the energy patch, and **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) is one of them. Below we show you why.

The problem with Crescent Point's dividend

The main problem with Crescent Point's dividend is very simple: it exceeds what the company makes. For example, last quarter the company made $0.24 per share in net income. That's not enough to cover the $0.23 per month dividend.

To make up the difference, Crescent Point incentivizes its shareholders – via a 5% discount – to take their dividends in shares rather than cash. As a result, the share count increases constantly, diluting your stake in the company. Through the first six months of 2014, the number of shares outstanding increased by 6.5%.

That's quite an increase for a six month period. And now that its share price is down, the company will need to issue even more shares to cover the same dividend. It's a snowball effect that you should simply stay away from.

Why Cenovus's dividend is better

At first glance, Cenovus's dividend seems much less attractive, yielding just over 4%. But it's still a better option than Crescent Point.

Again, the reason is very simple: Cenovus pays out a very affordable dividend. As a result, the company doesn't need to issue new shares. From 2009 to 2013, the share count increased by 0.2% per year. Over at Crescent Point, that figure is 25%.

Better yet, Cenovus is one of the low cost oil producers in Western Canada. In fact BMO has rated Cenovus's Foster Creek project as *the* low cost oil sands project in the oil sands. This means that your dividend is very safe, even if oil prices slide. And given where oil prices are today, this low-cost advantage is very relevant.

There's a moral to this story: if you see a dividend that looks too good to be true, then it probably is. You can find all sorts of these "opportunities" in the energy sector, but your best bet is to stay away.

There's another reliable dividend-payer in the energy sector you should buy instead of Crescent Point. It's also The Motley Fool's top stock pick for 2014. You can read all about it in the free report below.

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