Husky Energy Inc.: This Oil Stock Is Gushing Dividends

Description

Some investors think they have to choose between growth and income. But I say, why not both?

Case in point: **Husky Energy Inc.** (TSX: HSE).

Husky exemplifies what I look for in a dividend investment: good growth potential, an above-average yield, and a reasonable price tag.

Here are some numbers that should get you excited. Husky owns 618,000 acres of land. Underneath these properties, the firm is sitting on about 48 billion barrels of oil in place. And as everyone in the industry knows, these are top-tier assets that will fuel the company's expansion for many years to come.

Most of that growth will come from the firm's Sunrise oil sands project. Management is rolling out new phases, with plans to add up to 35,000 barrels per day of gross production through the end of 2019.

Husky has other expansion avenues offshore as well, including White Rose and Madura. In total, the firm has already secured the government permits needed to add 68,000 barrels per day of gross production. Altogether, management wants to expand output at a 5% to 8% annual clip over the next five years.

All of this has translated into a giant dividend for shareholders. Buoyed by rising production and higher energy prices, the Alberta oil giant has hiked its quarterly payout fivefold over the past 10 years to $0.30 per share — one of the largest increases in the company's history.

Today, the energy champion yields 4.3%. That's almost twice as large as the average yield in the Canadian energy industry and the highest of its oil sands peers.

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Source: Google Finance.

Of course, Husky is no slam dunk. Low oil prices have hammered it and the industry as a whole. As a result the stock has been pummeled, down 20% over the past three months.

That said, management has hedged much of its production out at higher prices. Cost cutting and output growth should also allow the firm to maintain profitability even in the face of lower oil prices. And given the company`s conservative payout ratio, investors don`t have to worry about a dividend cut unless energy prices fall much further.

Of course, Bay Street isn’t known for its long-term investment horizon. This may have created an opportunity to buy the stock at a discount. On almost every valuation metric — such as enterprise value to EBITDAX, price-to-earnings, and price-to-cash flow — the company’s shares are trading at their lowest multiples in a decade.

Problems aside, Husky is a top oil stock gushing with dividends. If you can stomach volatile energy prices, then this name would make a great addition to any income portfolio.

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