Why Telus Corporation Is a Better Dividend Stock Than Crescent Point Energy Corp.

Description

If you're searching for attractive dividend stocks, there are some compelling options in Canada. Many of them come from the energy sector. But be careful: some of these dividends aren't what they seem.

To illustrate this point, below we look at two dividend stocks. One is a high yielder in the energy sector. The other one is not in energy, and has a much lower yield. But the latter is still the better option.

A high yielder in the energy patch: Crescent Point Energy Corp.

If you're looking for some income from your investments, how can you turn down the 7.2% yield from **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG)?

Well, there are a few problems with this dividend. For one, it exceeds what the company actually makes, and thus appears to be unaffordable. To illustrate, Crescent Point made $0.32 per share in income through the first six months of this year. And the company's dividends over this stretch have totaled $1.38 per share. How is this sustainable?

To put it simply, Crescent Point incentivizes its shareholders (via a 5% discount) to receive their dividends in shares, rather than cash. But this has a perverse effect: the share count increases dramatically, diluting your stake in the company. More specifically, the weighted average share count increased by nearly 40% from 2011 to 2013.

This also makes it harder for Crescent Point to raise its dividend. To no one's surprise, its payout has remained flat since mid-2008, even though oil prices have generally been strong. Your best bet is to avoid this stock.

A quality dividend outside the energy patch: Telus

At first glance, **Telus Corporation** (TSX: T)(NYSE: TU) doesn't have nearly as attractive a dividend as Crescent Point. As of this writing, it yields less than 4%. But it's still the dividend you should choose.

Unlike Crescent Point, Telus pays a dividend it can actually afford. To illustrate, the company made just over $2 per share last year, well over the annualized dividend of $1.52 per share. Consequently, Telus offers no discount for receiving dividends in shares rather than cash. Better yet, the company is repurchasing shares, so the share count is actually decreasing.

As a result, Telus is able to raise its dividend much more consistently than Crescent Point. Since 2004, the payout has increased by over 400%.

Another advantage for Telus over Crescent Point

It is worth pointing out one more thing, especially in today's low oil price environment. Volatile energy prices make it much harder to predict how much money Crescent Point will make in the future. And if prices fall enough, eventually the company would have to cut its dividend.

Meanwhile, Telus operates in a very stable industry, with little competition, high barriers to entry, and subscription-based revenue. As a result, earnings are much easier to forecast, and the dividend is much safer.

There are other dividend stocks you should consider for your portfolio, and three are highlighted in the free report below.

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bensinclair