# Why Dividend Investors Should Sell Penn West Petroleum Ltd. and Buy Suncor Energy Inc. Right Now

## Description

If you're looking for energy stocks with big yields, the energy patch offers plenty of tempting options. Companies in this sector regularly pay dividends yielding more than 5%, a big number nowadays.



But ironically, these companies are very unsuitable for most dividend portfolios. Why? Well, many of these companies are struggling and pay an unaffordable dividend. Low oil prices have only dialed up the pressure further. So unless these companies turn around, the dividend will likely get cut. Meanwhile, dividend investors should seek secure, reliable payouts, even if that means accepting a lower yield.

Below, we lay out just one example, by looking at two dividend payers in the energy patch: **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) and **Penn West Petroleum Ltd.** (TSX: PWT)(NYSE: PWE).

**Penn West: Don't take the bait**

Thanks to a falling stock price, Penn West's dividend now yields north of 10%, making it the biggest yielder in the **S&P/TSX 60** index. So why shouldn't an income investor hold this stock?

Well, Penn West has been struggling mightily, and that is a big understatement. After expanding too quickly, it got left with an overstretched balance sheet. So the company has had to dial back dramatically, mainly by selling assets. Production has shrunk every year since 2008.

This year has been a particularly bad one. The company was criticized early in the year for selling assets at a very cheap price. Then came an accounting scandal, requiring $400 million worth of restatements. Most recently, lower oil prices have taken their toll. So far in 2014, the company's stock is down by over 40%.

And today, the dividend is under serious pressure. To illustrate, the company has funded the dividend entirely from asset sales since the beginning of 2012. This is not a sustainable strategy, and investors are anticipating a dividend cut. That wouldn't be unprecedented — the payout was cut by nearly 50% last year. Your best bet is to just stay away.

**Suncor: Improving operations**

At first glance, Suncor's dividend, which still yields less than 3%, may not seem that attractive. But it's still a perfect fit for most income portfolios. There are a few reasons why.

First of all, Suncor is much more responsible than Penn West. The balance sheet is not overstretched so production has remained steady. And due to lower oil prices, the company is dialing back capital expenditures by $1 billion this year.

The dividend is also very affordable, despite having just been raised by more than 20%. At $1.12 per year, the payout is well below last year's earnings per share of $2.60. As a result, the company has been able to gradually reduce the share count.

So shareholders can sleep very easily, knowing their dividend is safe. And at the end of the day, that's the most important thing.

There are other dividend stocks that are even better than Suncor. The free report below reveals three of them.



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**TICKERS GLOBAL**

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