Cenovus Energy Inc. vs. Husky Energy Inc.: Which Is a Better Dividend Pick?

Description

It's hard times in the energy patch…

Over the past few months, the price of oil has tumbled. The benchmark West Texas Intermediate price is down more than 20% since it peaked in June. Oil stocks have fared even worse, with the **S&P/TSX Capped Energy Index** off 30% over the same time frame.

But some adventurous investors are starting to pick through the rubble. **Cenovus Energy Inc** (TSX: CVE)(NYSE: CVE) and **Husky Energy Inc** (TSX: HSE) are popular bets because of their big payouts and steady growth. Let's take a look at these two stocks to see if one is a better deal for income investors right now.

Cenovus Energy Inc

Buoyed by rising oil production, Cenovus has increased its payout three times since its initial public offering public in 2009. In February, the company hiked its quarterly dividend 10%, a signal that management sees more good times ahead. Today, the oil sands champion yields 3.8%.

More importantly, Cenovus has the resource base to continue growing that dividend for decades to come. The company owns 2.1 million acres of prime land and is sitting on about 3 billion barrels of economically recoverable bitumen. Over the next decade, management expects oil sands production to grow at a 10% compounded annual clip.

Of course, Cenovus is no sure thing. Foster Creek — the company's flagship project — is showing signs of age. Executives are struggling to control costs and optimize output. As a result, the stock is trading at some of its lowest multiples on several metrics since going public.

Husky Energy Inc.

As an income investor, I'm picky about what stocks I want in my portfolio. But Husky has the two things I look for in a dividend investment: good growth potential and an above-average yield.

Husky is sitting on about 48 billion barrels of oil in place. And as everyone in the energy patch knows, these are top-tier assets that will fuel the company's expansion for decades to come. 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. Thanks to growing oil output, the Alberta energy giant has hiked its quarterly payout fivefold over the past 10 years — one of the largest increases in the firm's history. Today, the stock yields 4.5%, the highest of its oil sands peers.

Which dividend stock belongs in your portfolio?

Agh! Choosing between these two isn't easy. But with the figurative gun to my head, I lean slightly towards Husky. The slightly higher dividend yield is a big bonus, and I expect the company will match Cenovus's growth over the next 10 years.

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1. NYSE:CVE (Cenovus Energy Inc.)
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