Is Enerplus Corp's 7.4% Dividend in Trouble?

Description

The rapid decline in oil prices is putting oil-fueled dividends on shaky ground. Take **Enerplus Corp's** (TSX: ERF)(NYSE: ERF) 7.4% yield. While that payout had been growing safer as the company's funds flow has increased, those funds are about to flow in the opposite direction now that oil prices have headed lower. So, let's take a look at how this might impact Enerplus' dividend.

Sustainable dividend?

This year Enerplus expects its funds flow to come in at $854 million. From those funds it plans to spend $830 million on capex to grow its oil and gas production. Further, the company expects to send $220 million back to its investors via dividends. That equates to an adjusted payout ratio of 120%, which would spell trouble. However, the company also sold $208 million of oil and gas assets, which is basically the cash it used to fund its dividend as the net ratio is just 96%.

Overall, the company's payout ratios have vastly improved since 2012 when its adjusted payout ratio was 174% and its net ratio was 158%. However, the payout ratio is still very high based on funds flow that were coming from much higher oil prices. Because of this the company's dividend metrics are likely to head backwards in 2015. That doesn't necessarily mean a cut is a given, but the company will need to work harder to maintain its payout.

Looking ahead

Currently, just 38% of Enerplus' oil production is hedged for 2015, meaning that 62% of its oil-levered funds flow is at risk to falling oil prices. Barring a quick correction of oil prices back to higher levels, Enerplus will likely produce lower funds flow in 2015. How much lower depends on a variety of factors such as where oil prices bottom out and if gas prices head lower too, in addition to any impact from the USD/CAD exchange rate.

As I already pointed out, in 2014 Enerplus spent nearly all of its funds flow on capital expenses in order to push production up by 13%. Given the deterioration in oil prices we're not likely to see the company spend as much money next year as it's focused on being disciplined. It's quite possible the company cuts capex to a minimum so that production remains flat in 2015. Given its low decline rate, that should save it a lot of money that could be used to support its dividend.

Further, the company has demonstrated in the past that it has no problem selling assets to bridge the gap between its funds flow and its cash outlay for capex and dividends. The company could opt to monetize some non-core acreage in order to keep up its current dividend rate even if it doesn't drop capex. Further, with its strong balance sheet the company does have the flexibility to dip into the debt markets to bridge any gaps between funds flow and these cash outlays. So it has plenty of levers to pull to keep its dividend flowing, at least for the next year or so.

Investor takeaway

While Enerplus' dividend isn't on rock-solid ground right now, that doesn't necessarily mean a cut is imminent. The company can ratchet down capex, sell assets, or add debt in order to fund its capex plan while maintaining its dividend. However, if oil prices keep falling, and stay low for a long period of time, it does become more likely that the payout will be cut. Investors do need to keep an eye on things as the dividend could one day hit the chopping block if the oil markets don't improve in a reasonable amount of time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2014/12/02
Author
mdilallo