3 Oil Patch Dividends You Can Count On in 2015

Description

With the recently publicized dividend cuts from **Canadian Oil Sands Ltd.**, and **Baytex Energy Corp.**, oil companies are rethinking their dividends as cash flows are squeezed by crude prices hitting a nearly five-year low.

If you are considering investing in the oil patch, it's essential to look for companies with strong cash flows, flexible capex programs, and solid balance sheets. Not only can companies with these characteristics maintain dividends through commodity price cycles, but chances are good they are also fundamentally good businesses.

Here's why you can rely on **Suncor Energy Inc.** (TSX: SU)(NYSE: SU), **Canadian Natural Resources Ltd.** (TSX:C NQ)(NYSE: CNQ), and **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) to deliver a steady (and perhaps growing) cheque through 2015.

Suncor Energy

Amidst the news that multiple Canadian oil companies were reducing capital expenditures for 2015, Suncor announced it was boosting spending for 2015, by potentially as much as $1 billion. For Suncor's conservative management, this was not a reckless decision, but instead a reflection of the company's strong financial position and balance sheet.

It is this same strength that will secure Suncor's dividend for 2015. For the trailing 12 months, Suncor has been able to produce $2.4 billion of free cash flow. With dividends paid of $1.3 billion, Suncor is currently only paying 54% of its free cash flow in dividends. Although some oil companies can boast similar payouts on their earnings (which include many non-cash items) Suncor is nearly unrivaled in being able to show such a low payout ratio on free cash flow.

With a cash balance of $5.3 billion, low net-debt, and low cash operating costs of $31 per barrel, Suncor is at no risk of needing to reduce its dividend, even if prices continue to fall. If oil prices stabilize or increase, Suncor may even deliver dividend increases as they have twice in 2014.

Canadian Natural Resources

Canadian Natural Resources doesn't have the same free cash flow generation as Suncor, but has a sustainable dividend nonetheless. With a current payout ratio of only 30%, Canadian Natural has one of the lower payout ratios in the industry.

Investors may express concern that the company has had negative free cash flow of approximately $3 billion for the trailing 12 months, however, this is largely due to the fact that Canadian Natural paid approximately $3.1 billion for oil and natural gas properties sold by **Devon Energy Corp**.

As Canadian Natural transitions to a low-life, low-decline asset base by focusing growth on its Horizon Oil Sands project, it should see its capital expenditures drop dramatically, since assets like Horizon can provide crude for 40+ years with no declines, and with very low reserve replacement costs.

As a result, Canadian Natural is expecting nearly $7 billion per year of free cash flow by 2018, with its 2015 budget anticipating $800 million of free cash flow in a weak price environment. With a strong balance sheet, and the ability to quickly trim capital spending if needed, Canadian Natural's dividend is secure.

Cenovus Energy

Cenovus currently boasts an impressive 5.52% yield, and investors should not have to worry about it in 2015. Cenovus cut approximately 15% from its capital budget for 2015 last week, which should reduce capital spending to approximately $2.5 billion. With anticipated cash flows of $2.6-2.9 billlion, Cenovus may generate slight free cash flow in 2015.

How will it fund its dividend? Along with any potential free cash flow (especially if prices improve), Cenovus has indicated it should be able to comfortably fund its dividend for 2015 through its available cash on hand, even if oil prices are as low as $65 per barrel. With approximately $800 million of available cash, Cenovus should be able to comfortably fund its dividend for 2015.

If conditions are especially bad, Cenovus has identified areas it can make cuts to its capital program, to keep spending in line with cash flows. Although this dividend is slightly higher risk than the other two, investors can still rely on it in 2015.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
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