3 Oil Stocks Gushing Dividends (The Last One Might Surprise You)

Description

Imagine…

There's this guy, Mr. Market. He's your partner in a private business.

Now, Mr. Market is a friendly fellow. Every day he tells you what he thinks your interest in the business is worth. On most days, the price he quotes is quite reasonable.

However, sometimes Mr. Market forgets to take his medication. When he's overcome by bottomless pessimism or boundless optimism, he will quote you a price that makes absolutely no sense. And that's the situation right now in the oil business.

Is now the time to buy energy stocks?

Oil prices are off more than 40% over the past six months. Futures contracts for Brent and West Texas Intermediate have fallen below US$60 and US$55 per barrel respectively.

Many crude producers are getting even lower rates. Canadian Western Select, the benchmark for Alberta oil prices, is now trading below US$40 per barrel. Thanks to a surge of new projects coming online over the next few months, the discount for Alberta crude could fall even further.

Here's the thing: just as prices were unsustainably expensive above US$100 earlier this year, oil prices are now unsustainably cheap.

Most oil wells around the world are now below breakeven. Only a few areas with the best geology remain profitable. Even there margins are tight.

At these prices, it doesn't make sense to invest in future production. Oil companies are cutting thousands of projects from their budgets next year. If they all remain cancelled, that would result in an big supply shortfall by the end of the decade.

Cheaper oil is also a big economic boost. The International Monetary Fund has called plunging energy prices a “shot in the arm” for the global economy. That means, eventually, we will need a lot more oil.

Of course, it’s impossible to predict how far rates might fall before finding a bottom. That said, oil prices have plunged like this four times over the past 40 years. All were quickly followed by big rallies.

These oil stocks are gushing dividends

Falling oil prices have had predictable consequences on energy stocks. So if Mr. Market gets depressed and wants to give me bags of goodies at a discount, who am I to say no? Here are a few solid dividend names.

Cenovus Energy Inc (TSX: CVE)(NYSE: CVE): Oil sands projects typically have time horizons measured in decades. Most of their costs are upfront. That means a big producer like Cenovus can continue to crank out cash flow even if oil prices drop to US$30 per barrel.

Suncor Energy Inc (TSX: SU)(NYSE: SU): My favourite part about Suncor isthe giant share buyback. A big drop in the stock price means that the company will be able to buy back a larger number of shares. Ultimately, this means investors will own a larger piece of the business.

Canadian Oil Sands Ltd (TSX: COS): Canadian Oil Sands, which owns a 36.7% interest in the Syncrude oil sands project, now yields over 12%. As I have written previously, a dividend cut is almost inevitable. However, this is still a low-cost operation that will likely be cranking out income 50 years from now. These short-term hiccups are the perfect time to establish a position.

That said, not every stock is a bargain. Sometimes you get what you pay for. Low-quality producers may not make it through the shakeout. However, the companies above have the size and scale needed to survive the industry’s current doldrums.

The bottom line, Mr. Market is off his medication. His depression could send energy stocks down even further. However, if you’re focused on the long haul (i.e. past the current news cycle), then these prices are a steal.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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