2 Reliable Dividends From Canada's Energy Patch

Description

The crude price crunch now sees West Texas Intermediate (WTI), the key benchmark oil price for Canadian oil producers, falling to well under $50 per barrel. The price of Brent (the international crude benchmark) has also plunged spectacularly over recent months to under $50 per barrel. These significant falls in the price of crude have triggered a rout among energy stocks as companies slash dividends and expenses to accommodate these markedly lower oil prices.

This is creating considerable uncertainty among investors as they wait for the next dividend cut. But a number of operators in the patch still remain profitable despite the crude price crash and it is unlikely that these companies will cut their dividend anytime soon. They should continue to reward investors even with oil prices now at their lowest point since 2009.

Two of those companies are **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Husky Energy Inc.** (TSX:HSE).

Enbridge Energy Inc.

Enbridge is Canada's largest provider of crude transportation and other midstream services. It also transports the largest amount of oil exported from the patch to Canada's key export market for crude, the U.S. This dominant market share coupled with a wide and far-reaching crude pipeline network endows Enbridge with a considerable economic moat, which protects its competitive advantage.

Furthermore, while lower crude prices may be forcing higher cost oil producers to wind down uneconomic production, demand for Enbridge's transportation services will continue to grow. This is because the company and its crude transportation network are an important link between the patch and key refining markets in the U.S. and elsewhere.

For these reasons, I don't expect to see Enbridge cut its dividend any time soon. It should continue to offer investors a tasty 3.4% dividend yield along with solid earnings growth over the long term.

Husky Energy Inc.

Integrated energy major Husky Energy pays a dividend yielding almost 5%, a conservative dividend payout ratio of 60%. This indicates that even in the current difficult operating environment, the dividend is sustainable, with plenty of fat in its net earnings to absorb lower crude prices before the dividend is affected.

But more importantly for investors, Husky has assembled a high quality and geographically diverse portfolio of assets. It has access to a range of energy markets globally, including the increasingly important Asian energy markets. Even with declining energy demand from China on the back of a weaker real estate market and diminishing economic growth, demand from Asia for energy will remain strong, particularly as other economies including India and Indonesia continue to grow and modernise.

Further, production from the Liwan gas project in the South China Sea continues to grow. This is an important advantage for Husky. It is able to realize a price for gas sold to China from this project, at a higher price than the spot market price. Progress also continues on its shallow water gas projects in the Madura Strait in Indonesia, which upon completion will give it access to energy markets in southeast Asia’s most populated country.

Each of the assets along with oil sands and conventional oil assets in Canada leave it well positioned to weather the crude price crunch while remaining profitable. When coupled with its conservative payout ratio, it is clear that except for an exceptional unexpected event, its dividend will remain untouched, and reward investors for some time to come.

Both companies offer investors the ability to receive a consistent income stream while they wait for the price of crude to rebound in the long term, which will see the earnings performance of both companies grow strongly.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:ENB (Enbridge Inc.)
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