



3 Decidedly Different Approaches to Dividends

Description

Canadian Natural Resources Limited ([TSX: CNQ](#))([NYSE:CNQ](#)), **PrairieSky Royalty Ltd** ([TSX:PSK](#)), and **Wajax Corp** (TSX: WSJ) have varying degrees of connections to Canada's energy industry. Of course, they've all been affected by the recent drop in crude oil prices. But each company has taken a different path on dividends. We take a closer look at all three stocks to see if there's a pattern.

Canadian Natural Resources

The biggest of the three and the largest oil and gas producer in Canada, Canadian Natural Resources almost tripled its profit in the fourth quarter and raised its dividend by half a cent to \$0.23 per share. The Calgary company said net income in the quarter soared to nearly \$1.2 billion or \$1.09 per diluted share, up from \$413 million or \$0.38 in the same quarter in 2013.

Canadian Natural Resources also said its management committee agreed to a 10% salary cut effective March 1, and the board agreed to cut its annual cash retainer by 10%. A token gesture perhaps, but it does show the company is paying attention to the falling price of crude oil, and the public's perception of how it's handling the situation. Canadian Natural Resources also said it was considering spinning off its Alberta royalty lands, which is similar to a move EnCana executed when creating PrairieSky Royalty last year, the second stock we'll examine.

PrairieSky Royalty Ltd

PrairieSky reported Q4 revenue of \$69.6 million and earnings of \$50.7 million or \$0.38 per share. Prior year comparisons are not available, as the company was spun-off by EnCana in May 2014. PrairieSky maintained its annual dividend at \$1.30 per share.

"While the current downturn in commodity prices has presented challenges for [the] industry generally, our low-cost structure and high-margin royalty production continues to deliver strong funds flow with no capital requirements," the company said in its earnings release.

Wajax Corp

The third stock we'll look at is Wajax, a small industrial products company with a long and successful history. The firm is facing some short-term challenges. Wajax released its fourth-quarter earnings last week and a cursory look suggests they weren't too bad. Fourth-quarter earnings fell to \$11.2 million from \$12.2 million in the same period in 2013. Revenues declined 1% to \$386 million.

However, Wajax opted to cut its monthly dividend payout to \$0.0833 cents per share starting next month, down from \$0.20 per share previously. Going forward, the company will switch to a quarterly dividend of \$0.25 per share.

In its earnings report, Wajax cited a need "to increase the funds available to invest in a new strategy, to provide additional liquidity in this time of economic uncertainty and bring more stability to dividend payments over the business cycle."

Wajax has good reasons to cut its dividends. More than half (52%) of its revenue comes from western Canada, which CEO Mark Foote expects will come under pressure in 2015, as the effects of lower crude oil prices kick in. "In addition, the lower Canadian dollar will also have a short-term negative effect on earnings," he said.

Wajax said it is taking action to deal with these challenges, outlining its "four points of growth" strategy, which Foote says will provide a strong platform that will form the long-term basis for Wajax's activities and investments to improve product and service offerings to customers.

So, what's an investor to do? A lot depends on the price of crude oil and where you think it's headed. Earnings reports look backwards and 2015 could be a very challenging year for energy companies, as the full effects of the oil-price decline take hold. But all three companies—particularly Canadian Natural Resources—have taken steps to weather the downturn. And if you believe the future of oil prices includes gains, not declines, our trio of stocks is well positioned to join the forward march.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
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