



A Surprisingly Safe 5% Monthly Dividend

Description

With oil prices falling 50% lower over the past year, many commodity producers have either slashed or discontinued their previously attractive dividend payments. It's a bit curious then that **Enerplus Corp.** ([TSX:ERF](#))([NYSE:ERF](#)) is still yielding almost 5%. In addition, it pays dividends on a monthly basis, rather than quarterly or annually.

Can investors count on the company's dividend, or is it in danger of being cut?

Not immune from pricing impacts

Enerplus is one of the largest resource plays in Canada, with roughly 60% of production being natural gas and the remaining 40% oil.

Selling commodities into the open market at depressed prices this year ended a five-year consecutive rise in cash flows. In 2015, cash flows per share are expected to drop from \$4.20 to \$2.60.

In response, the company has slashed its capital expenditure budget by 40% and is exploring the sale of non-core assets.

Even at lower prices, production is still strong

Despite slashing its capital expenditure budget, the firm is still anticipating strong production volumes. While total production increased annually over the past five years, Enerplus expects a small dip of only 4% in 2015.

As the company's properties are primarily long-life and low-decline, it has significant amounts of production volumes that are easily accessible with little additional capital expenditures needed. For example, the company's interests in the Williston and Marcellus Basins (representing almost 60% of production) have roughly 30-year inventory levels. This has helped boost proven reserves from 300 mmbbl in 2010 to 429 mmbbl in 2014.

Dividend should be well-covered moving forward

Already this year, Enerplus reset its dividend lower to the current \$0.05 monthly payout per share. This represents nearly a 5% yield at today's levels.

With its capital budget and dividend payments now reflecting the current pricing environment, management believes the company is positioned to weather the downturn in commodity prices and re-establish growth when market conditions improve. Debt levels are not expected to increase significantly in 2015 and the firm is only 10% drawn on its \$1 billion bank credit facility.

Even at 2015's depressed earnings estimates, the company expects the dividend to only amount to 28% of the firms total fund flows. This leaves ample room to sustain the payment while servicing its reduced capital budget and debt needs.

Get paid to stick with Enerplus this year

Compared with its peers, Enerplus has one of the lowest production breakevens at \$57 a barrel. In addition, its natural gas plays have some of the highest recovery rates in the industry. At current levels, investors can enjoy a safe 5% dividend while waiting out a recovery in commodity prices. When that happens, Enerplus is well-positioned to return to growth.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date

2025/08/26

Date Created

2015/05/14

Author

rvanzo

default watermark