Can Investors Count on These 5%+ Energy Sector Dividends?

Description

The energy sector has long been popular with dividend investors thanks to the generous payouts given by most companies in the space.

But as oil has fallen from a high of close to $110 per barrel in 2014 to approximately $60 per barrel today, these attractive dividends have been ravaged. Dozens of different energy companies have cut their payouts, a preventative measure in what could be a new reality in the price of crude.

But there are still some energy giants who pay generous dividends of more than 5% annually. Let's take a closer look at three of these companies to see whether the distributions are sustainable given the weakness in crude.

Crescent Point

Thanks to its hedging program, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) looks to be in much better shape than most of its peers. The company made the decision to lock in a price of more than $90 per barrel for half of its 2015 production while times were good, a decision that looks pretty smart at this point.

But that doesn't mean the company's generous 9.2% yield is secure. Based on the company's first-quarter numbers annualized over the rest of 2015, we can expect the company to generate approximately $1.6 billion in cash from operations. Capital expenditures are expected to be $1.55 billion, which leaves just $50 million in free cash flow to pay the dividend.

But based on the number of shares and the percentage of investors who elect to get their dividends in the form of more shares, Crescent Point will be on the hook for nearly $1 billion in dividend payments in 2015. Sure, it has the ability to borrow the capital to make sure investors get paid for the remainder of 2015, but after that all bets are off the table. Borrowing to pay the dividend is never a long-term sustainable solution.

Arc Resources

Arc Resources Ltd. (TSX:ARX) is another Canadian energy giant that has managed to keep its monthly payout intact, supplying investors with a dime per share on a monthly basis throughout the latest oil crisis. That's good enough for a 5.2% yield.

But like with Crescent Point, a detailed analysis shows that Arc's dividend is on thin ice. For the first quarter of 2015, the company generated just $191 million in funds from operations. The company plans $550 million in capital expenditures for the whole year, putting the projected free cash flow for 2015 at $214 million.

In the first quarter alone, Arc paid $54 million in cash dividends, a number that will go up in subsequent quarters because the company just issued 17.9 million shares in a bought deal in January. The company is looking at a deficit of about $100 million for the whole year, based on where oil is today. That's not such a big deal to borrow, but again, borrowing to sustain a generous payout isn't ideal.

Cenovus Energy

Shares of **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) are currently flirting with a new 52-week low, as investors concerned with a new Alberta NDP government's energy policy sell off shares. This has pushed the company's dividend up to 5.1%.

Based on the first quarter's results, things don't look pretty. The company generated just $275 million from operations, while spending $550 million on capital expenditures. Since Cenovus has both upstream and downstream operations, that gap should narrow in the upcoming months. Still, it's obvious that maintaining the company's quarterly dividend will be difficult in today's crude environment.

Like the others, Cenovus isn't at a critical point quite yet. The company issued shares earlier in 2015, raising its cash position to $1.8 billion. It also has the ability to borrow, and is still in the process of cutting costs, especially in its oil sands operations.

Just about every energy dividend that's more than 5% is likely suspect. But for investors who are convinced the price of crude will continue to recover, this could prove to be a great time to lock in a 5% yield on your cash. If oil rises to $70 or $75 per barrel, these payouts will look a whole lot better. But as it stands right now, they're pretty risky.

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1. Dividend Stocks
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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:ARX (ARC Resources Ltd.)

4. TSX:CVE (Cenovus Energy Inc.)
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