Why Telus Corporation Has a Better Dividend Than Crescent Point Energy Corp

Description

In Greek mythology, sirens were beautiful yet dangerous creatures that would lure nearby sailors to shipwreck with their enchanting music.

In the 21st century, big dividends can have a similar effect. So many investors cannot resist a high yield, and end up buying very shaky companies. And we all know what happens next: a big dividend cut and a plummeting stock price. This story has played out numerous times over the past 12 months, especially in the energy sector.

This brings me to the highest-yielding stock in the **S&P/TSX 60**, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). To Crescent Point's credit, it has held its dividend constant while its peers have been cutting dividends left and right. And because of the company's falling stock price, its dividend now yields 14%.

That may be very tempting, but this is still a dividend to be avoided. Below we take a closer look, and also examine why you should prefer **Telus Corporation** (TSX:T)(NYSE:TU).

Why you should avoid Crescent Point

First, it's important to give credit where it's due. And Crescent Point deserves credit for having a clean balance sheet, for having low-cost operations, and for having a strong hedging program. All of these positives have helped the company maintain its dividend.

Yet there's another reason why Crescent Point hasn't cut its payout. The company has a program that encourages its shareholders to take their dividend in shares, rather than cash. About 30% of shareholders take advantage of this offer.

This creates some problems. To start, Crescent Point needs to pay dividends on these new shares as well, so the company's dividend obligation grows over time. This makes it very difficult for the company to ever raise its payout. This is why Crescent Point hasn't raised its dividend since July 2008.

And as Crescent Point's share price decreases, the company must issue more shares to cover its payout. In the first quarter last year, the company only had to issue 2.2 million new shares under this program. One year later, this number increased by about 50%.

So if the oil price stays low — and it looks like it will — Crescent Point will eventually have to cut its dividend.

Why you should prefer Telus

At first glance, **Telus Corporation** (TSX:T)(NYSE:TU) doesn't have a very appealing dividend. After all, it yields just 3.8%. But it's a far better option than Crescent Point, for a number of reasons.

Let's start with the obvious: Telus is not banking on high oil prices. Instead, it provides a service we know will be in high demand for a long time. Better yet, the company faces limited competition, and is protected by high barriers to entry. Telus is also a best-in-class provider, with industry-leading customer satisfaction scores, allowing the company to steal market share.

If you're still not convinced, Telus has raised its dividend 12 times since Crescent Point last upped its payout. That streak is likely to continue.

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