How Long Can These 3 Big Energy Dividends Last?

Description

While reporting results for the second quarter of 2015, **Cenovus Energy Inc.** became the latest major energy company to slash its dividend.

This leads to a very obvious question: who's next? We take a look at three possibilities below, all of which have big dividend yields.

1. Crescent Point

Any discussion about big dividends in Canada's energy patch has to start with **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), whose $0.23 monthly payout yields an astounding 14%.

Crescent Point hasn't had to cut its dividend yet for a number of reasons. First of all, the company has a clean balance sheet. Second, Crescent Point incentivizes shareholders to take their dividends in shares, rather than cash. This lightens the cash burden that comes with dividend payments. Finally, the company has a strong hedging program.

But eventually the clock will run out on this dividend. Because Crescent Point's share price is down, it will have to issue more shares to cover the dividend. The hedging program will run out. And the company can only borrow so much to cover the difference.

2. Baytex

Unlike Crescent Point, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) has already slashed its dividend in the past 12 months. But the company's monthly dividend still yields more than 10% at current prices. So, is this dividend in danger as well?

Once again, the prognosis does not look good. Baytex has over $1.8 billion in net debt, about 75% of the company's market value. By comparison, this figure is less than 40% at Crescent Point.

Baytex's debt load was even higher at the end of last year before the company raised $632 million by selling equity. Unfortunately, these shares come with $44 million worth of dividend obligations every year, and this may be too much to swallow. Cutting the dividend is likely Baytex's best option.

3. Enerplus

Like Baytex, **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) has a very high dividend yield—currently 7.5%—despite a dividend cut earlier this year. It's a sign of how far these stocks have fallen (Enerplus shares are down by nearly 50% in the last three months and by two-thirds in the past year).

And once again, Enerplus may have to cut its dividend, or eliminate it altogether. In the first quarter capital spending decreased by 23% year over year, yet still exceeded funds flow from operations.

To help bring in funds, Enerplus has sold some non-core assets. But this will be a drag on long-term production, and assets aren't garnering big price tags in this environment. Like the other two companies, another cut will likely come in the next year unless energy prices recover significantly.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. NYSE:ERF (Enerplus Corporation)
2. NYSE:VRN (Veren)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:ERF (Enerplus)
5. TSX:VRN (Veren Inc.)

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