Why These 2 10%+ Dividends From the Energy Patch Could Easily Survive

Description

Portfolio manager Eric Nuttall is someone worth paying attention to. After all, his fund has outperformed his benchmark by 20+ percentage points during his five years managing the portfolio. And earlier this week, he appeared on *The Business News Network* to give his top energy picks.

Two of these picks had dividend yields above 10%, and Mr. Nuttall is confident that both of them are sustainable. We take a look at each below.

1. TORC

Unlike many of its high-yielding peers, **TORC Oil and Gas Ltd.** (TSX:TOG) has not cut its dividend. And Mr. Nuttall thinks the dividend is sustainable at about $50 oil. He appears to have a point.

TORC requires approximately $200 million in cash per year to maintain production and keep the dividend, and that's what the company can generate with oil in the low US$50s. Better yet, the company has a fairly robust balance sheet, with only about $270 million in debt—even with such a reduced share price, that's still about a third of the company's market value.

TORC is also heavily concentrated in Saskatchewan, which means the company is not so exposed to the royalty review taking place in Alberta. Better yet, Saskatchewan's oil fields tend to be more economic than Alberta's. Yet most investors are still not convinced.

TORC's shares yielded 10.9% entering Thursday, a sign that many investors are expecting the dividend to be cut. But unless oil prices stay below $50 indefinitely—which Mr. Nuttall views as highly unlikely—these investors will probably be wrong.

2. Northern Blizzard

One of Mr. Nuttall's other favourite companies is **Northern Blizzard Resources Inc.** (TSX:NBZ), whose dividend yielded a whopping 12.6% heading into Thursday. And this was *after* a 50% dividend cut earlier this month. But Mr. Nuttall thinks the dividend won't be cut again.

The company has 60% of its 2016 production hedged at $79.50 per barrel, which should help it survive if oil doesn't recover significantly. Better yet, Northern Blizzard has all of its producing assets in Saskatchewan.

Meanwhile, the company's shares are severely depressed—according to Mr. Nuttall, Northern Blizzard was trading at just 50% of its reserve value (the shares have since rebounded slightly), assuming strip pricing. So, if there's even a modest recovery, shareholders will not only get a big dividend, but some hefty capital gains, too.

Yet Northern Blizzard is still a riskier option than TORC, mainly because it is more heavily indebted. If you're looking for a way to bet on oil, Northern Blizzard is a great way to do so. But if you're looking for dividends first, then TORC is most likely the better option.

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