With a 6.3% Dividend, Whitecap Resources Inc. Is Highly Resilient to Swings in Oil

Description

Even before the latest oil rout, Canadian oil producers hadn't performed very well. In the past five years, investors have experienced cumulative losses in big names like **Baytex Energy Corp. and Canadian Natural Resources Limited. Whitecap Resources Inc.** (TSX:WCP), meanwhile, has returned over 150%, along with an annual dividend that currently yields 6.3%.

How has Whitecap been so successful? Can it repeat this success?

A conservative mindset

As with most Canadian energy producers, Whitecap is engaged in the exploration, development, and production of crude oil, natural gas, and natural gas liquids in western Canada. What separates it from competitors has been its conservative mindset.

One of Whitecap's biggest strengths, especially today, is its low debt load. Its total debt is roughly 1.5 times cash flow. For most competitors, this ratio is closer to three times. While this reduces returns during upward cycles, it has proven indispensable when commodity prices tumble. Armed with less interest payments, Whitecap was actually able to reduce its net debt last quarter by over $100 million to just $775 million.

And unlike many competitors, Whitecap's debt is in Canadian dollars. This means that the company has not been penalized by the U.S. dollar. For example, many peers earn profits in Canadian dollars but pay debt in U.S. dollars. When the Canadian dollar weakens, those firms are forced to effectively pay more in interest payments. Whitecap has been able to avoid this issue.

Skilled hedging

Besides limiting leverage, management has also shown its prowess in hedging its oil exposure. By locking in selling prices for its output, Whitecap was able to benefit greatly when oil started to fall.

For example, 42% of its remaining 2015 output is hedged at an average of $97 a barrel. With oil prices currently hovering below $50, Whitecap is able to sell its production at almost double the rate of its competitors. Twenty-seven percent of its 2016 production is still hedged at about $98, meaning that Whitecap's advantage won't disappear any time soon.

One of the only stable dividends in the space

Since 2013, Whitecap has consistently paid out a monthly dividend. Even with low oil prices, management has reaffirmed its dividend through 2016:

"Our focus is on long term sustainability and we anticipate even if crude oil were to average $45 a barrel, our 2015 total payout ratio (after dividend payments and capital expenditures) would be less than 100%. Looking forward to 2016 at $50-60 a barrel, we anticipate growing 1-3% on a per share basis and maintaining our current monthly dividend of $0.0625 a share, all within a fully funded cash flow model."

With a proven management team, limited financial risk, and a fully funded 6.3% dividend even with today's oil prices, Whitecap Resources Inc. looks like a winner.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/13
Date Created
2015/11/03
Author
rvanzo