Whitecap Resources Inc.'s 6.7% Dividend Looks Safe for Now

Description

Whitecap Resources Inc. (TSX:WCP) is an oil producer with production in British Columbia, Alberta, and Saskatchewan. With the turmoil rocking the oil market right now, many would look at its 6.7% dividend and believe it's destined to be cut sooner rather than later. For now at least, Whitecap looks to be an exception.

Cash flow will cover the 2016 dividend, even with low oil prices

For 2016, management has laid out a plan that should completely cover the dividend payment. Its projected cash flow per barrel is expected to be $28.80. This is an impressive margin given that the company's estimate factors in only $50 per barrel of oil. After development costs are taken into consideration, cash flow is still expected to be $437 million next year versus a total dividend payment of only $226 million. This should give investors plenty of confidence in its stability.

With modest assumptions, Whitecap should generate free cash flow for years

Because dividends need to be paid out in cash, not accounting earnings, free cash flow is the ultimate determinant of a dividend. Without positive cash flows, a firm can show as much accounting earnings as it wants, but will be unable to continue paying out income to shareholders. Fortunately, Whitecap should generate ample amounts of cash through 2018, even with only modest increases in the oil price.

With $50 oil, Whitecap is capable of generating slightly positive free cash flow of about $6 million. At $60 a barrel, however, this jumps to $80 million. Production is also expected to continue rising, meaning that even if its per-barrel profits drops, the company's overall profitability may rise. Whitecap looks to be the rare case of a high-yield oil producer with a stable dividend.

The solid balance sheet backs up cash flows

If Whitecap were to struggle to generate management's projected cash flows, the company can still rely on its strong liquidity to service any short-term financing needs. This year, its debt is equivalent to only 1.7 times cash flow. So, if the company were in an extreme bind, it could pay off its entire debt load in under two years. Even with lower cash flow expected next year, debt is only expected to grow to 1.9 times cash flow.

Insiders are showing their optimism

Whitecap shares are down 22% in the past year, but if the market is willing to punish the stock merely for being an oil producer, insiders are willing to pick up beaten-up shares at a discount. This year alone, insiders have invested $4.5 million into company stock. Since 2009, they have increased their total position by 123%, now reaching a cumulative $125 million.

Insiders are typically more aware of a company's prospects than any outside observer. By putting their own money on the line, investors could do much worse than following suit.

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1. TSX:WCP (Whitecap Resources Inc.)

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