Does Husky Energy Inc. Really Yield 8%?

Description

As Canadian equities continue to languish, many companies are seeing their dividend yields creep up, especially in the energy sector. One of these companies is **Husky Energy Inc.** (TSX:HSE), whose dividend yield is over 8%. This is good enough for third place on the **S&P/TSX 60**, trailing only **TransAlta** and **Potash Corporation of Saskatchewan**.

Yet Husky Energy's dividend comes with a big catch. It's one that you can't see just from looking at finance websites. And it means that Husky's realistic dividend yield is actually zero.

For those of you who haven't been following the company, we take a closer look below.

The background

Husky Energy, just like any other energy company, struggled with low oil prices in 2015. Through the first nine months of the year the company generated just $90 million in free cash flow–not nearly enough to cover its $875 million in dividend payments.

Other high-yielding energy companies reacted by cutting their dividends. But not Husky. The company held firm on its $0.30 quarterly payout. To make up the cash shortfall, it issued preferred shares and debt.

The balance sheet tells the story. At the beginning of 2015 Husky's debt balance totaled $4.1 billion, and it had $530 million of outstanding preferred shares. Nine months later, those numbers had ballooned to $6.0 billion and $870 million, respectively. Clearly, something had to be done.

A stock dividend

While reporting its third-quarter results, Husky made a big change to its dividend. Instead of cutting the payout, the company announced that all future dividends would be paid in shares rather than cash.

So if you're a shareholder, you'll receive more stock every quarter. But so will every other shareholder. Thus your percentage ownership in the company will never change, and you'll receive no cash either.

In other words, the Husky dividend is completely worthless and might as well have been cut altogether.

Why did the company do this?

Husky's actions are certainly strange, and it's difficult to see what the motivation was, but there's one possible answer.

If Husky had eliminated its dividend altogether, then its shares would have a yield of zero, and dividend investors would not even consider buying Husky. But with a stock dividend, Husky still officially sports an 8% yield. So this tactic may have provided a small boost to its share price.

Husky has plenty of motivation to keep its share price high. Just last month the company filed a short-form prospectus, which allows for more capital raising in the future. And the higher the share price, the easier capital raising is.

So if you're looking for big dividends, don't be misled by such tricks. There are certainly better options for your portfolio.

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