Superior Plus Corp. Pays a 7.2% Dividend, Even With Low Oil Prices

Description

The collapse in oil prices has scared most investors away from the energy sector. Heavily exposed to the energy industry, **Superior Plus Corp.** (TSX:SPB) has been no exception. Since its highs in April 2015, Superior Plus stock is down over 30%, pushing its dividend above 7%.

While this may look like yet another situation where an energy company will eventually cut its unsustainable dividend, there's reason to believe that Superior Plus can survive the current oil rout and maintain its dividend along the way.

Superior Plus doesn't produce energy; it merely services the market

If you're an oil producer, there's almost no chance your profits haven't taken a massive dip. Lower oil prices result in lower selling prices, directly impacting the bottom line. Superior Plus, however, isn't involved in the drilling of oil or natural gas. Instead, it primarily distributes propane across Canada, but is also involved in the distribution of many other refined fuels across the entirety of North America.

This business is largely volume based, meaning that even if energy prices remain volatile, Superior Plus won't feel a big impact.

To demonstrate the company's stability, we can look at its ability to generate cash flow, even with decade-low commodity prices. For 2015, operating cash flow should end up between $1.65 and $1.85 per share. Despite the continued slide in prices, management still expects to generate $1.50-$1.80 per share in operating cash flow this year. With the stock down to only $10 a share, Superior Plus is looking awfully cheap.

Specialty-chemicals business provides more upside

The company's specialty-chemicals business manufactures and supplies high-margin chemicals to businesses across North America. In fact, it's the largest supplier of sodium chlorate in North America with a 34% market share. Globally, it controls 16% of the market. A dominant market share ensures lower costs for the company, leading to industry-leading profitability.

Segment earnings, excluding hedges, have remained remarkably stable. Between 2011 and 2015, profits were between $112 and $124 million every year. Additionally, Superior Plus recently acquired Canexus Corp. for $324 million to expand its specialty-chemicals portfolio.

This move alone doubled the size of its specialty-chemical business, helping keep costs low while providing cross-selling opportunities. When other energy-related companies are getting crushed, Superior Plus can rely on an unrelated earnings stream that is immune to swings in commodities.

Dividend looks safe

As mentioned, Superior Plus has an energy-related business that doesn’t rely too much on energy prices. Plus, its recently expanded specialty-chemicals business should provide an additional layer of diversification. For 2016 analysts are expecting the company to earn roughly $0.90 a share. Dividend payments, meanwhile, which provide a 7.2% yield, only total $0.72 a share. With ample internal cash flows, income investors can continue to count on this outsized yield.

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1. TSX:SPB (Superior Plus Corp.)

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Date
2025/07/21
Date Created
2016/01/27
Author
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