



Dividend Investors: Whitecap Resources Inc. Does it Again

Description

This week, **Whitecap Resources Inc.** ([TSX:WCP](#)) reaffirmed its monthly dividend of \$0.0233 per share. While that may not seem like much, it equates to a 2.75% dividend yield at a time when many oil producers are just trying to survive and are eliminating their payouts completely.

As we'll see, Whitecap has plenty of resources to not only support its current dividend, but strategically grow it over the coming years.

[generate_fund_chart](#)

Set for long-term growth

On April 11, Whitecap announced a reduction in its dividend to the current rate mentioned earlier. Unlike many of its competitors, the company lowered its dividend not out of necessity, but to free up capital to take advantage of discounted assets that other producers were selling at fire-sale prices. Management stressed that the extra money would be reallocated towards profitable growth.

This month, it kept that promise. On May 10, Whitecap announced that acquisition of certain Saskatchewan assets from **Husky Energy Inc.** (TSX:HSE) for \$595 million. This is an already productive field that has a current output of 11,600 barrels per day. Moreover, it has a historically established decline rate of just 5%. The acquisition will be immediately accretive to Whitecap's business given the production infrastructure is already in place.

The company believes production can be increased by at least 25% (3,000 barrels per day) without any additional spending.

The purchase is a perfect example of how Whitecap is taking advantage of struggling rivals. As of last quarter, Whitecap had a net debt of \$760 million, equating to 24% of its market cap. Husky Energy, meanwhile, has a net debt of roughly \$7.2 billion, nearly half of its market cap. Because its Saskatchewan assets were considered "non-core," Husky was willing to part with the projects at a discounted rate to raise financing.

Not the only acquisition

Back in February, Whitecap also announced that it was acquiring the final 10% interest in its Boundary Lake project with a \$95 million bought-deal agreement involving the issue of 13,770,000 shares at \$6.90 per share. Its press release also noted that “members of the Whitecap board of directors, management team and employees are expected to participate in the financing.”

The deal allowed Whitecap to raise its 2016 production guidance from 37,000 barrels a day to 38,800, all without further stressing the balance sheet.

A long-term opportunity

Whitecap management has consistently taken proactive measures to protect and grow the company. A conservative hedging program, limited leverage, and disciplined capital spending have allowed it to navigate the current crisis with relative ease. Recent actions will continue to protect its balance sheet while providing production growth and greater profitability when oil prices improve.

While you wait, a sustainable 2.75% dividend should keep income investors happy.

CATEGORY

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TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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