

Income Investors: These 3 Energy Stocks Are Gushing Dividends

Description

After years of paying consistent dividends, 2015 saw many Canadian energy companies swallow hard and announce that their dividends would be suspended until further notice.

Most investors reacted in a predictable way—by selling their shares and quickly moving on to companies that had nothing to do with energy. Some also took the more patient route, opting to either hold or double down—a move that looks silly today with the benefit of hindsight.

Others took a different approach, moving out of riskier oil names into safer options. These companies still offer plenty of potential upside when oil recovers yet pay dividends that are sustainable for years to come.

These are the kinds of stocks an income investor should own today. Let's take a closer look at three energy stocks that look poised to deliver dividends for years to come, even if oil takes its sweet time recovering.

Suncor Energy

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is a diversified energy powerhouse. Not only is it Canada's largest oil producer, but it also has refineries, a liquids division, and retail operations that include more than 1,500 Petro-Canada gas stations.

The company has taken advantage of depressed energy company valuations to boost its oil sands holdings. First it acquired Canadian Oil Sands in a move that made it the largest shareholder of the Syncrude oil sands project. It also raised its stake in the Fort Hills oil sands project, which is slated to begin production in 2017.

Suncor's cash flow thus far for 2016 is about half of what it should be, primarily because of the wildfires that ravaged the Fort McMurray area. But it still has more than \$3 billion worth of cash on the balance sheet, and it has the ability to either borrow or issue more shares to raise capital. That bodes well for the future of the company's 3.4% yield.

Inter Pipeline

There are a couple of reasons why I continue to like **Inter Pipeline Ltd.** (TSX:IPL) versus its larger competitors.

The first is the company's Albertan focus. By concentrating on the province that is most friendly to energy, Inter has made dealing with the government much easier than pipelines with a national focus. That advantage is constantly understated.

The second is Inter's latest big expansion. The company recently built three major oil sands pipelines, each large enough to support about double the current volume. In other words, Inter built pipelines that

can easily increase cash flow without doing much of anything. This bodes well for the next energy bull cycle, whenever that may be.

Inter Pipeline currently pays a 5.7% dividend that has been raised each year since 2009. With a payout of approximately 70% of funds from operations projected for 2016, the company is well positioned to continue raising its dividend well into the future.

Akita Drilling

Akita Drilling Ltd. ([TSX:AKT.A](#))([TSX:AKT.B](#)) is a small-cap drilling company that is well positioned to perform well going forward and pay its generous dividend.

When times were better in the oil sector, Akita was spending the cash to acquire pad drilling rigs, which are much less costly to operate than traditional models. Although most of those rigs are sitting idle currently, they will be among the first to go back to work when activity recovers.

In the meantime, Akita has cut costs to the bone. Quarterly selling, general, and admin expenses were more than \$17 million in the first part of 2015. In its more recent quarter, those same expenses were just \$4.5 million.

Akita is awash with cash thanks to contract cancellations. It's sitting on more than \$22 million in cash and short-term investments. It doesn't owe a nickel in debt. Annual dividends are just over \$6 million, meaning the company can afford to pay investors for a while longer without worry. Shares currently yield 4.3%.

Dividends you can count on

There aren't many energy dividends investors can depend on for the long haul. We just don't know how long it's going to take for energy to recover. But the payouts at Suncor, Inter Pipeline, and Akita are rock solid. Investors should be able to count on them.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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