2 Top Oil Stocks for Dividend Income

Description

Oil companies aren't famous for their high dividend yields. The reason is that digging oil is an expensive business which requires a lot of cash injection on a regular basis.

Still, income investors are better off to take some exposure to this very important sector of the Canadian economy, which makes up a large portion of the benchmark **S&P/TSX Composite Index**.

After the 2014 plunge in crude prices, many top dividend payers in the oil patch cut their distributions drastically to preserve cash, as they needed to restructure their operations to survive.

Now that oil has stabilized in a $45-60-a-barrel range, investors can consider investing in some stable companies that have been successful in turning the corner in this oil slump through successful cost-cutting and achieving operational efficiency.

So, with this theme in mind, here are two top dividend stocks from the energy patch.

Suncor Energy Inc.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is the largest energy producer in Canada. Suncor is among the few oil producers which continued to reward their investors by paying regular dividends, even during the one of the worst oil slumps of our time.

Suncor has delivered consecutive dividend increases in the past 15 years, and the latest was in the first quarter of 2017, when the quarterly payout was increased by 10%.

The company was able to avoid dividend cuts during this difficult time by achieving output growth and lowering its costs. Since 2013, Suncor's dividend payout has grown 60% to $0.32 a share per quarter.

Suncor is a fantastic turnaround story in the Canadian oil patch, showing investors that it can survive and create value for its shareholders.

From $39 a barrel in 2011, Suncor was able to cut its production cost to ~$26 a barrel by 2016. This was achieved by a simultaneous improvement in oil sands production capabilities. The company forecasts its oil production will hit ~800 million barrels per day in 2019 from ~580 million barrels in 2015.

TransCanada Corporation

If you’re not comfortable in taking a position in a pure oil producer, then investing in a top midstream company is your best bet. These companies work like toll roads, meaning they ship energy products from oil fields to refineries and then to consumers. In that process, they collect their margins.

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is a great midstream example. The company runs a network of natural gas and liquids pipelines, power-generation, and gas-storage facilities.

These businesses produce hefty cash flows, helping the company to hike its dividend payout for 17 consecutive years.

With an annual dividend yield of 4%, TransCanada pays a $0.48-a-share quarterly dividend. As the company completes $24 billion of near-term growth projects, it expects to provide an annual dividend growth of 8-10% through 2020. So, it’s not a bad time to pick this nice yield with a potential for the future upside.

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Date
2025/07/05
Date Created

2017/10/10
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