As Oil Rises, These Dividend Payers Top the List

Description

As the price of oil has increased from the US$50 mark over the past several weeks to ~US$65, there have been many small companies that have been huge winners but remain volatile and will turn down should the price of oil decline. There are other names, however, that will be able to stand up to a declining price of oil and maintain dividend payments to shareholders.

The first name that investors can happily hold through thick and thin is none other than **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which hit a 52-week low of $36.09, only to rebound just above the $46 mark. At the current price, the dividend yield is a healthy 2.75% with a modest payout ratio (as a percentage of net income) of only 63% amid oil prices, which have remained subdued for close to three years.

As it is a vertically integrated oil company, investors can expect rising profits, as the company has oil that can be produced instead of bought from competitors. The exploration and refinement part of the process is where the huge jump in profit will come from.

For those seeking even more certainty from the cash flow statement, shares of **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) currently offer a juicy dividend of almost 5%, as the company paid out only 51% of cash flows from operations for the first three quarters of the 2017 fiscal year and only 33% for the previous year. Clearly, in spite of low oil prices, pipeline companies have continued to offer opportunity to investors. From fiscal 2013 to 2016, the total dividend-growth rate was no less than 4.84%, as investors experienced a five-year price appreciation of no less than 50% in addition to the dividend.

The last name on the list is U.S.-based **Schlumberger Limited.** (NYSE:SLB), which provides technology to those who are early in the oil-production process. As more companies make the decision to drill and undertake major projects that will be completed over a number of years, the current price of ~US$76.50 per share is a major bargain for investors who are prepared to deploy their capital and be patient. They will receive a dividend of more than 2.5% in addition to a unique asset which has a significant amount of potential to appreciate in value over time.

What makes this investment so attractive is that the company is not actually an oil producer; instead, it is in a unique position to sell technology-based solutions to those in need. Although earnings will traverse many peaks and valleys, investors need not worry about large losses, as the company carries a beta close to one and has undertaken a consistent share buyback over the past several fiscal years.

With many fantastic opportunities available to investors in the oil sector, it should be noted that home runs don't have to take a matter of months, but can take years. Here's hoping that these names continue running the bases for a long time to come.

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3. Investing

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