Add This Monthly Dividend-Paying Energy Stock to Your Portfolio Today

Description

Since 2014, dividend payments from many oil companies, particularly the smaller ones, have been looked at skeptically by dividend investors. Of course, there were good reasons for the skepticism, since several companies were forced to cut their dividends to strengthen their balance sheets, as cash flow dropped precipitously with falling oil prices.

After this prolonged period of negativity, Canadian energy stocks are finally beginning to show signs of strength. Most of the increased optimism towards these stocks rests on rising oil and gas prices. Rising prices lead to stronger cash flows, which, in turn, lead once again to more stable dividend payouts from mid-cap oil and gas companies.

With the return of higher prices, dividend opportunities in the sector are becoming more appealing once again. **Peyto Exploration & Development Corp.** (TSX:PEY) is one company that is well positioned to be an excellent dividend-paying stock in the oil and gas sector. Peyto derives approximately 79% of its revenue from natural gas, so it is a relatively pure play on the commodity.

Aside from benefiting from increasing commodity prices, Peyto is also positioned to benefit politically due to the fact that the majority of its operations are in natural gas. Many governments, including Canada's, see natural gas as a "bridge" fuel, as they transition to a greater reliance on renewable energy. As a result, producers such as Peyto stand to benefit as the world moves towards cleaner energy sources.

The financial picture has been improving in general for Peyto. Revenues, earnings, and funds from operations have all been increasing. Over the past 19 years, Peyto has averaged a 30%-per-year return on equity. Peyto recently increased its funds from operations by 12% year over year. Management believes that these funds should be sufficient to continue to expand operations and maintain the current dividend.

The biggest issue with the balance sheet is the sizable debt that Peyto has on its books. A large debt load is not uncommon for commodity companies as they move through a low point in the cycle, since taking on debt to purchase discounted assets at a low point can be beneficial in the long run. The benefits do hinge, though, on the company's commitment to pay down the debt as market conditions improve.

The downturn in commodity prices created a difficult earnings environment; Peyto has employed a number of strategies to counter the negative impact. The company currently uses currency and production hedges to stabilize earnings. It also has exceptionally long-life assets with low depletion rates that become more profitable with use, as a result of the lower capital expenditures needed to maintain the wells.

At current levels, Peyto could be a decent hold for the dividend investor. With increasing production, low decline rates, and increasing commodity prices, this stock looks set to move higher over the coming months.

However, it is important to remember that this is still a commodity stock and, as such, does not have the stable income that stocks in less volatile sectors, such as utilities or consumer staples, tend to have. But if you want to add monthly dividends to your portfolio with a stock that has the potential for price appreciation and a little sector diversification, then Peyto might be the stock for you.

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