Pump Up Your Dividend Portfolio With These 2 Oil Companies

Description

After years of waiting, oil investing seems to be starting to work again. Investors are begging to come back to the sector after a long hiatus. Sure, it is a tentative return, given the shellacking a lot of Canadians got dealt after the downturn in oil prices, but the tides seem to be turning for people looking for a return in oil.

But there are a staggering number of oil companies to choose from in Canada, making the question of what to buy daunting. Investors also need to decide whether they want to buy large or small companies. Each has different characteristics, profiles, risks, and rewards.

A good way to capitalize on a turnaround is to choose both a large and a small company to put in the portfolio. Large companies often provide stability and diversification — important features when investing in notoriously volatile sectors like oil and commodities in general. Small companies provide more leverage to oil prices and can move quite quickly when things turn around.

A good strategy, which capitalizes on the stability of the large company and the leverage of the small, is to buy one of each for your portfolio. Since I am a big believer in collecting dividends while I wait, if possible, try to find companies that pay out a decent yield. The two companies I prefer in Canadian oil are **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Whitecap Resources Inc.** (TSX:WCP).

Suncor Energy Inc.

Of the two stocks listed here, Suncor offers diversification, stability, and a growing yield. This is the company you add to your portfolio for steady, reliable results. Suncor operates worldwide, producing not only in Canada but also in countries such as Norway, Syria, and the United Kingdom. Their operations, while primarily oil, also extend to operating refineries, renewable energy, and Petro-Canada service stations.

In addition to the highly diversified business, Suncor pays a dividend of 2.5% at present, whichincludes a 12.5% dividend increase instituted in the latest quarter. Operating earnings were up 21% inthe quarter year over year, and funds from operations increased by 7%. The solid operationalperformance indicates the dividend will be safe and leaves room for future increases.

Whitecap Resources Inc.

Where Suncor offers investors stability and diversification, Whitecap offers leverage on a Canadian oil turnaround. The company is focused entirely in the Western Canadian provinces of Alberta and Saskatchewan and is often considered to be one of the highest-quality operators in the region. If Western Canadian oil does regain favour with investors, this company will likely benefit from the change in sentiment.

While waiting for the turnaround to occur, investors will benefit from the monthly dividend of approximately 3% at the current share price. As operations continue to improve, production increased 31% year over year, higher oil prices should increase the company's profitability. The dividend was once again raised after being cut a couple of years back, this dividend is likely secure for the foreseeable future.

Final thoughts

Suncor and Whitecap have a lot to offer. Suncor is perhaps the best to include as a long-term dividend hold. Considering how it was able to raise its dividend and purchase assets when times were bad, you can only imagine how it will perform in good times. And while Whitecap cut its dividend during the recent downturn, the fact that it has begun raising it again is a promising sign for the future.

The combination of holding both of these companies as a portion of a diversified portfolio may provide investors with some stable rising dividends as well as a significant boost in capital gains, all the while collecting those dividends while you wait.

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1. Dividend Stocks
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2. TSX:SU (Suncor Energy Inc.)
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