



## This Energy Stock Just Announced a Reliable 6.6% Dividend

### Description

On March 15, **ARC Resources** ([TSX:ARX](#)) announced its latest \$0.05-per-share dividend — the same payout it's been generating for more than 30 months in a row.

After the latest announcement, ARC's dividend yield hit 6.6%.

Achieving this lofty of a dividend is rare in the embattled Canadian energy sector. Still, ARC's management seems content to continue the payment month after month.

Can you trust ARC's 6.6% monthly dividend?

### You must be brave

Based in Calgary, ARC was formerly one of the largest oil and gas trusts in Canada. After the company's IPO in 1996, it acquired 21 properties from a former subsidiary of **Exxon Mobil**.

From 1996 to 2014, ARC shares grew in value by more than 1,000%, handily outpacing the **S&P/TSX Composite Index**. However, following the collapse of oil prices in the summer of 2014, shareholders have lost more than two-thirds of their investment.

Even after the dip, ARC shares have still delivered a 10% annual return since inception, when including dividends. The road to this point has been intensely volatile, however.

### Your bravery can pay off

Even at depressed prices, ARC still has the resources to pay its dividend for years to come.

While many competitors are stuck with multi-billion-dollar debt levels, often exceeding the equity value of the entire company, ARC has been prudent in managing its leverage. With a market capitalization of \$3.2 billion, it has net debt of just \$700 million. That's nothing to sneeze at, but it certainly puts ARC near the top of the industry.

ARC also has a remaining reserve life of more than 17 years, meaning investors can count on continued production for years to come. Where the company truly shines, however, is with its ultra-low cost of production.

Many of its oil projects have breakeven prices of just US\$15 per barrel — levels not seen in any other region apart from the Middle East. For its natural gas production, breakeven prices are well below \$1.00 per mcf. Energy prices would need to fall by more than 50% from current levels for ARC to feel even a pinch of pressure.

## **This dividend is rock solid**

It's not every day that you find an oil and gas company that can consistently pay a 6.6% dividend, but that's the case with ARC Resources.

ARC's payout ratio is currently just 25%, meaning the dividend is fully covered several times over. With a healthy balance sheet, ample cash flow, and industry-leading breakeven levels, there's no reason to believe ARC won't be able to service this dividend for 2019 and beyond.

Of course, shares will remain volatile, but that's the deal with commodity-related stocks. ARC Resources operates in an out-of-favour industry, and that's exactly the time to buy. The road will be bumpy, but you'll receive a 6.6% annual income while you wait for energy stocks to rebound.

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