Could it Finally Be Time to Buy Low on This Oil Stock?

Description

Stock investors are glued to **ARC Resources** (TSX:ARX) once again. Many are expecting a repeat of the 800% increase in trading volume that occurred last March 15. A stock rally seems to be developing for this sustainable dividend-paying exploration and production (E&P) company.

Investor confidence remains high, despite the flaky price movement of late. You can always lean on the company to take care of your financial health through sustained, high dividend payments. Although ARC does not belong to the market's elite group of dividend payers, the 6.6% yield ranks as among the highest in oil and gas stocks.

A reliable stream of dividends

It is not surprising for investors to make ARC a fixture in their portfolio baskets. After all, dividends have a big influence on investment decisions and are always a pivotal criterion for people seeking to augment active income with passive income.

The key facet or mechanism of ARC's total return model is the monthly dividend of $0.05 per share. This is meant to deliver shareholder value. In order to guarantee uninterrupted dividend payments, the company eyes a payout ratio of 25%.

It means that ARC's goal is to return 25% of its cash flow or funds from operations as dividends to shareholders. The balance of 75% is then earmarked for reinvestment activities to sustain the business and fund new or fresh growth opportunities.

For the next five years, the plan is to reward shareholders with an additional $1 billion. In 2017, ARC has already topped the $6 billion mark of cumulative payouts since dividend issuance was initiated. But interestingly, the trailing 12-month payout ratio is 54.53%. Clearly, earnings can cover the payments.

Financial flexibility and optionality

Among E&P companies, ARC is singled out for astutely managing a strong balance sheet. The company has judiciously maintained financial flexibility as well as optionality. Management's strategy is to keep a conservative net debt level of 1.0-1.5 times annualized funds from operations.

This game plan is intended to sustain the company's base businesses. Based on the company's explanation, it is necessary to counter-cyclically fund growth projects during commodity cycle lows and create significant optionality during commodity cycle highs.

Sustainable funding model

On top of a strong balance sheet, ARC is guided by a sustainable funding model. Included in the model is the reinvestment of proceeds received from the disposal of non-core businesses in 2016.

The sale made it possible for ARC to counter-cyclically fund infrastructure projects namely the Dawson Phase III gas processing and liquids-handling facility and the Sunrise Phase II gas processing facility expansion. The company expects to further boost profitability.

Market analysts have started tweaking their price projections. Because ARC is expected to deliver strong financial and operational results this quarter and succeeding ones, the median price target is $13.80 but with a high estimate of $18.25.

What can be more enticing than a price appreciation of between 47% and 94% plus a 6.6% dividend yield? Let me know if you have a better stock recommendation.

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