Ignore the Uncertainty Surrounding Crude and Buy this Top Energy Stock Yielding 6%

Description

Oil has pulled back slightly in recent days as energy markets digest the threat to higher oil prices of OPEC and Russia reducing or removing the production caps that have been in place since 2016. These have been crucial to balancing oil supply with demand and supporting firmer prices for some time.

Growing disquiet

Even Trump's plans to reduce Iranian oil exports to zero, sharply deteriorating output in Venezuela and the renewal of conflict in Libya will be incapable of supporting higher prices should OPEC and Russia decide to open the spigots. The International Energy Agency believes that OPEC spare capacity could be a high as 3.3 million barrels daily, while some analysts believe that Russia can pump up to an additional 500,000 barrels daily.

Those fears caused crude to pullback sharply, with the North American benchmark falling to under US$64 per barrel and the international price Brent pulling back to around US$70. While prices have moderately recovered since then, there is still considerable uncertainty surrounding energy markets.

This has been a roller coaster ride for the energy patch, which, when combined with the headwinds facing the oil sands has deterred mainstream investors from committing large amounts of capital to investing in domestic energy stocks. That has created an opportunity for investors seeking the opportunity to double or triple their money.

Opportunities abound

Many Canadian oil companies have failed to keep pace with oil's latest rally, with many trading at significantly less than their book value, thereby creating an opportunity for investors to acquire quality energy companies for less than the value of their assets. Intermediate oil producer **Whitecap Resources** (TSX:WCP) is one of the few Canadian upstream explorers and producers to have retained its dividend since the slump in crude began.

Despite cutting its dividend several times since the oil slump began, Whitecap is yielding a very juicy 6%. There are concerns that Whitecap's monthly dividend payment is unsustainable because on an annual basis, it's roughly double the driller's trailing 12-month net income.

Firmer oil and lower costs will help enhance the sustainability of Whitecap's dividend, but the uncertain outlook surrounding crude and lower production for 2019 could impact the dividend's sustainability. Its earnings are also shielded from weaker natural gas prices, as 85% of its forecast 2019 production of 70,000 to 72,000 barrels daily is weighted to oil and other petroleum liquids.

Whitecap has also established a series of commodity hedges to offset the risk of weaker crude. For 2019, 45% of the driller's production is hedged at an average price floor of $71.70 per barrel, which mitigates much of the financial risk associated with weaker oil and further supports the sustainability of that juicy dividend.

It should be noted that Whitecap has a forecast 2019 total payout ratio as a proportion of funds flow of 85% indicating that the payment along with other expenses including capital spending is sustainable.

Why buy Whitecap?

Whitecap's copious oil reserves totalling 489 million barrels have a fully diluted value of $15.37 per share, which is almost three-times greater than Whitecap's current market value. This highlights the tremendous potential upside on offer to investors and that once oil prices normalize that they could double or even triple their investment. Investors will be paid to wait for this to occur by Whitecap's regular monthly dividend yielding a very juicy 6%.

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mattdsmith