This Is the Oil Stock to Own Today

Description

It has been years since I first started looking at **Whitecap Resources** (TSX:WCP). I first began looking at this stock when its dividend was sitting at around 7% and the share price was about $12 a share. This was before the sector was decimated in 2015, before the collapse in practically every stock in the sector.

After watching company after company slash their dividends over the past few years, I had pretty much given up on the smaller oil and gas companies. Pipelines, with their stable earnings, have continued to interest me, but producers just seem too unpredictable to be considered serious investment opportunities for my hard-earned dollars.

In spite of my lack of enthusiasm for the sector, Whitecap remains one of the few companies that still interests me. It is not the 6.47% monthly dividend alone that draws my eye, although that is certainly a factor. There are several other aspects of this company that keep drawing me back to look at it again and again.

While I am by no means overly bullish on oil, I still believe, in spite of the long, bitter wait, that western Canadian oil companies will one day become desirable to investors. Their cheapness is practically legendary now, with companies like Whitecap trading at very low valuations. Whitecap, for example, still trades at less than its book value with a price-to-book ratio of 0.7. It also has a forward price-to-earnings ratio of 13.7, pretty cheap in anyone’s books.

Another positive for the company is the amount of insider buying that has been occurring over the last few years. Insiders have been net buyers for several years — a huge vote of confidence for the company. Compare this to other oil companies, especially the larger ones, and you will notice far more buying by Whitecap insiders than occurs in many other companies.

One concern I have is the share issuance that happens with Whitecap. While this is not uncommon for commodity companies to issue shares to obtain capital, it would be nice if it used some of its free cash flow to purchase and retire shares at these cheap levels.

I can’t complain too much. Management obviously has confidence in the renewed strength of its earnings and its cash flow generation. So much so, in fact, that the monthly dividend was just increased by 5.6% a few days ago. The big dividend appears to be healthy and here to stay, at least insofar as oil prices allow it.

Oil production certainly seems to be sufficient to maintain this dividend, with first-quarter 2019 funds flows from operations increasing 16% year over year. The increased funds flows were heavily impacted by significant narrowing of Canadian crude oil price differentials.

Debt has been a killer for Canadian oil companies during these hard times, and Whitecap is working to strengthen its balance sheet. The company still has a significant amount of long-term debt, but it succeeded in reducing its debt by $117 million, or by 8%, as compared to its debt in the first quarter of 2018.

The best play in Canadian oil

If you are looking for a company to ride a recovery in the Canadian oil sector, this small producer is probably as good a bet as any if Canadian oil ever comes back into favour. The big dividend, increasing operational results, and confidence of its insiders all make this a buy for investors betting on a turnaround.

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