Forget Dividends: Here's How Investors Will Make Huge Capital Gains!

Description

Don't get me wrong: dividends are great.

But when it comes to making investment returns, they're certainly not everything

In fact, while it's almost always a really good sign for shareholders when a company pays or raises its dividend, sometimes companies that place too much emphasis on the size of their current dividend payout can actually do themselves a disservice in the process.

Sometimes a company that would otherwise return surplus cash to its shareholders through a regular dividend payout would be even better off it had used that cash for other purposes, including paying down or retiring outstanding debt obligations, repurchasing its common stock through the open market, or simply by reinvesting in its own business.

Earlier this spring, I wrote a post for the Motley Fool Canada where I talked about how refining stocks can sometimes be an attractive seasonal play during the summer months.

Essentially, because many Canadians take time off from work and many children are home from school for their summer holidays, families tend to have more time to travel and enjoy the great outdoors.

But because of that, it's also not unusual to see gas stations (many of which are owned by oil refining companies) hike up their prices at the pump by an additional nickel or two in order to take advantage of the increased demand.

Either way, there happens to be a number of quality refining stock on the market these days, a bunch of which are listed on the TSX Index.

Take for example, a company like **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE).

Now, CVE stock only yields its shareholders a measly 1.78% dividend currently, but that's not to say the company's underlying earnings and cash flows aren't actually a lot stronger than what its current dividend yield might suggest.

CVE is coming off the heels of a major multi-billion acquisition a couple of years ago that resulted in a massive expansion of its available production capacity.

However, the problem was that acquisition didn't exactly come cheap, and so CVE's been busy paying back the debt it borrowed.

Investors can sometimes be embarrassingly short-sighted when it comes to matters like these, and I think CVE right now is a prime example, trading at considerably less than its reported tangible book value, if you can believe it.

Husky Energy Inc. (TSX:HSE) meanwhile, is another oil refining company trading on the **TSX** and another that also happens to be trading for less than its reported tangible book value.

The case with Husky however is a little different than that of with Cenovus.

Cenovus is dealing with a one-off in that the company needs to use its available cash flows to pay down the debt that it took on as part of the **ConocoPhillips** acquisition.

Husky Energy, on the other hand, runs a more capital intensive business in that it tends to need to dedicate a larger percentage of its sales and earnings toward regular capital expenditures than does Cenovus.

Still, the company has enough cash around to sustain its current 3.97% dividend payout.

Foolish bottom line

Both are leveraged businesses and respectively, investments, but for different reasons altogether in that one is more of a shorter term or business cycle phenomenon, while the other involves the perpetual nature of its operating structure.

Yet both pay dividends and trade for considerably below their tangible book value.

These stocks may not be for the faint of heart, but at the same time, they hold promise of the potential for huge future capital gains for Foolish investors.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
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