Buy This High-Yield Oil Stock in July

Description

Kevin O'Leary once stated that you should invest your capital and only spend the interest, or dividends, you earn from that investment. In that way, you'll be able to keep your original cash and live off the income.

On the one hand, with low levels of income from safe savings instruments like GICs and bonds, it is becoming difficult to get enough cash from investments to spend. On the other hand, there are plenty of beaten-up stocks in unloved sectors with high yields, especially in the oil and gas sector, to supply you with the income you need to replace your old tent or buy a new pair of running shoes for your upcoming marathon.

Whitecap Resources (TSX:WCP) is my favourite producer in the oil and gas sector. The company has been punished severely for being a western Canadian producer. Its shares have languished in the $4 range for months, and the chart has been sloping in the wrong direction for years. Nevertheless, there are a number of good reasons to take a stab at this beaten-up producer if you can stomach a bit of short-term negativity.

It is an operational powerhouse

Whitecap's production costs per metre fell significantly year over year in Q1. Cost per metre in its Viking assets fell 37% and 76% in its Pembina assets. Lower costs lead to higher production, and Whitecap's production has grown at a 12% compound annual growth rate (CAGR) per share over the past 10 years. Higher production has resulted in a 17% CAGR per share over the same amount of time, and it is those funds flows that support dividend growth and payments.

Its debt has continued to go down as well. Debt can be a dividend killer, so the fact that management is cognizant of its debt levels and is actively reducing that debt should leave investors more confident in dividend stability. In the first quarter of 2019, Whitecap announced that its debt was 1.7 times funds flow and would fall to 1.4 times later in the year.

Insiders are buying

If you look up the insider trading volume for the company, you will notice that there is overwhelmingly more buying going on than selling. This suggests that insiders have great confidence in the company, and that the shares are trading at an excellent value. I could find no other company, including the majors, that share this level of insider trading volume.

The dividend is great … and rising

The whole purpose of this article has been to convince you that Whitecap is an excellent stock for income. The monthly dividend is currently almost 8% as of this writing, which should at least bring some sparkle to your eyes. That's $2.85 for every 100 shares you own each and every month. That's a lot more cash in your account than your monthly GIC, which is most likely paying less than 2% these days.

Of course, this is an oil producer, so one should never be too comfortable with big dividends. Whitecap already cut its dividend a few years ago when oil had dropped during the commodity crisis, burning many investors in the process.

But there are a number of reasons to assume that the dividend will remain safe. First of all, the CEO recently stated that this payout is not only safe; it is likely to rise in the future. This is supported by a number of dividend increases that have occurred over the past couple of years, including the 5.6% increase announced in the first quarter of 2019. Investors will be looking at the upcoming results set to be announced on August 1. In the meantime, the dividend has been confirmed for the month ahead.

Buy now

Whitecap, indeed the entire oil sector, has been in a multiyear slump. Now is the time to get in on excellent companies, and this is one of those companies. There is a high likelihood that we will move into a bull market in oil in the future, resulting in share appreciation in addition to the dividend returns. In the meantime, those better-than-7% dividend payments will give you cash to burn.

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