# Is Whitecap Resources's (TSX:WCP) Juicy 7% Dividend Yield Safe?

### Description

Oil keeps whipsawing wildly with markets reacting strongly to each piece of good and bad news. While the outlook for crude at the start of 2019 was optimistic, the trade war between the U.S. and China coupled with fears of a looming recession are weighing heavily on its price.



Oil weakened sharply in recent days after a report was released by **Citigroup** indicating that demand growth had declined significantly, that was even after Saudi Arabia was forced to shut down half of its oil production after a drone strike. There are also fears that OPEC may not extend or deepen its production cuts, which would leave the world awash in a massive oil glut.

These factors are weighing heavily on the energy patch. Many upstream producers, including **Whitecap Resources** (TSX:WCP), are down significantly. The decline in Whitecap's market value has outpaced the North American benchmark West Texas Intermediate's (WTI) fall of 17% over the last year to be down by 42% over that period.

This marked decline in Whitecap's market value has left it paying a dividend with a very juicy yield of 7.7% and triggered fears that the payment may be cut because of the poor outlook for crude.

Let's take a closer look at Whitecap and determine whether a dividend cut is looming.

## Defensive approach

Oil's weakness combined with its poor outlook and the wide differentials that existed between Canadian crude benchmark prices and WTI during the second half of 2018 saw Whitecap take a defensive approach to managing its operations. As a result, production declined by 7% year over year to 70,611 barrels daily, which was 84% weighted to oil and other petroleum liquids.

That is important to note, because it means the risk posed by the poor outlook for natural gas and wide price differentials for Canadian natural gas benchmarks is minimal for Whitecap.

While lower production magnifies the impact of weaker oil on Whitecap's earnings, it means that it can preserve cash flow and its balance sheet by reducing spending. The driller finished the second quarter 2019 with a solid balance sheet with total debt of a mere 1.6 times EBITDA and to 30% of market capitalization.

Whitecap also finished the period with total current assets of almost $151 million, $1.8 billion of available liquidity from total credit facilities, and long-term debt of $1.2 billion. The driller has a well-laddered debt profile with no near-term maturities with the first major maturity of $200 million occurring in 2022, giving Whitecap plenty of time to ride out oil's current weakness.

Those characteristics provide Whitecap with a significant amount of financial flexibility, positioning it to be capable of weathering another downturn in oil prices. It also enhances Whitecap's ability to maintain its dividend, even if crude softens further.

The sustainability of the dividend becomes apparent when it is considered that, based on Whitecap's 2019 guidance, it has a total payout ratio of 80% of free funds flow. This indicates that there is plenty of room to accommodate the dividend should its earnings fall because of another oil price collapse.

That guidance is based on assumed average oil price of US$50 WTI for 2019, which is US$3 per barrel less than the current spot price.

The safety of the dividend is further enhanced by Whitecap's hedging program, with 42% of its second-half 2019 production protected by combination of prices swaps and collars. There is every indication that not only is the dividend sustainable, but that it is covered even if WTI falls to as low as US$45 per barrel.



## Foolish takeaway

Whitecap is an attractive play on higher oil. Its dividend payment yielding a juicy 7% can be maintained in the current difficult operating environment and a combination of Whitecap's solid balance sheet, reduced capital expenditures, and hedging program will ensure that it is safe.

Whitecap's proven history of growing oil reserves and production while delivering value for shareholders makes now the time to buy and lock in that very appealing 7% yield.

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