TFSA Investors Beware: Oil Stock Dividends Set Up to Fail!

Description

Eight more oil companies were delisted from the **Toronto Stock Exchange** (TSX) in September, begging the question, "What is the future of oil?"

Today, the most popular energy stocks on the TSX are **Cenovus Energy** (TSX:CVE)(NYSE:CVE), **Encana** (TSX:ECA)(NYSE:ECA), and **Crescent Point Energy** (TSX:CPG)(NYSE:CPG).

These three oil stocks still qualify for listing on the TSX, but that could easily change. North American oil is notoriously uncompetitive in the global marketplace. The only way it can survive is through trade restrictions on lower cost oil-exporting countries like Iran.

The United Nations removed oil sanctions on Iran in 2015. Without sanctions holding them back, Iran then ramped up oil production, sending oil prices to the lowest level since before 2009.

North American oil corporations struggled to compete against low-cost Iranian oil. There were rumours that many of them would fail. Thus, big oil dividend payers such as Cenovus, Encana, and Crescent lowered dividend payments to shareholders.

Now that Canada has renewed sanctions against Iran, these reviving oil companies are increasing their dividends. They promise dividend growth, but can they deliver?

Cenovus Energy

Cenovus Energy is touting big business plans, particularly in the next five years. Cenovus announced to shareholders an updated corporate strategy in October 2019.

The oil stock plans to bring in $11 billion of cumulative free funds flow through the year 2024. Moreover, the company has ambitious plans to not only increase oil production, but also provide steadily growing dividends to shareholders.

Cenovus will also increase its dividend in the fourth quarter of 2019 by 25%, marking the first dividend growth since Canada and the U.S. renewed Iranian oil sanctions

The dividend payout per share on Cenovus stock hit a peak of $0.266 per share between March and June 2015. Since then, the dividend payout has dropped to a 10-year low of $0.05 per share, where it stands today.

Cenovus certainly has big plans to rebuild dividends, augment cash flows, and reduce debt. The tricky part will be for them to achieve these goals in an uncertain geopolitical environment. Changes in global leadership could quickly shift the advantage away from North American oil interests.

Encana

Encana stock has also suffered from falling dividend payouts since 2015. In December 2015, Encana issued a dividend of $0.095 per share, which the company then lowered to only $0.02 per share in March 2016.

Today, Encana issues a dividend of $0.025 per share at writing. Currently trading at $5.84 per share, Encana's dividend yield is only 1.7% of the current share price. It may seem farfetched today to speculate on an Encana delisting given a market cap of $7.86 billion; but, geopolitical tensions and technological innovation don't favour oil corporations like Encana.

Encana could just as quickly become a deadweight TSX stock – leaving shareholders with nothing as the corporation wonders what to do with its assets and debt.

Canadian investors are better off staying away from potentially false speculation of growing dividends at Encana, especially as green energy technology quickly replaces oil and natural gas.

Crescent Point Energy

Crescent Point Energy also suffered from negative dividend growth since 2015.

Before the 2015 geopolitical policy change from Iran oil sanctions to free trade, Crescent Point Energy issued a steady $0.23 dividend payment every month. After the United Nations lifted Iranian oil sanctions, Crescent Point chose to diminish the dividend payment to $0.10 per share in August 2015.

This quickly became unsustainable, however. Today, Crescent Point issues a low dividend of $0.01 per share. Crescent Point's dividend is lower than that of both Encana and Cenovus Energy. It also sells for a low $5.12 per share.

The rise of electric vehicles and alternative energy sources like solar and wind power could easily cause Crescent Point's stock price and dividend issuance to fall further. If it does, Crescent Point Energy could be the first of these three most popular energy stocks to fall into delisting territory.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/07/24
Date Created
2019/10/14
Author
debraray