



Canadians: This 1 Stock Has a 10% Dividend Yield!

Description

If you're a bit shocked at the fact that a **TSX** stock has a 10% dividend yield, you're not the only one.

The company in question engages in the acquisition, development and holding in petroleum and natural gas properties and assets. Its current market capitalization is \$2.07 billion and it has been trading on the TSX since 1996.

ARC Resources ([TSX:ARX](#)) pays a [monthly dividend of \\$0.05](#), which has been the case since 2016, which results in trailing 12-month payments of \$0.60; thus, a \$5.85 share price indicates a dividend yield of 10.3%.

An interpretation of the numbers

For the six-months ended June 30, 2019, the company reports an unimpressive balance sheet with negative retained earnings of \$1.1 billion due to many years of net losses.

This results in a tangible net worth (TNW) of \$(1.3) billion, which suggests the company has no real value. On a positive note, the company reduced its long-term debt by \$80 million and remains in compliance with its covenants.

Looking at the company's income statement indicates a decrease in sales revenue from \$684 million to \$620 million. Although the production quantities are not mentioned on the interims, it can be inferred that the decrease in natural gas prices has adversely affected revenues. ARC Resources reports a net income of \$40 million for this period compared to \$9 million a year prior.

The company recorded a \$68 million gain from the deferred tax liabilities, so adjusted net income would stand at \$28 million. On the plus side, the company has a federal tax basis of \$1.8 billion that can be used for future tax deductions.

ARC Resources reports strong cash flow from operations year over year, complemented by additional spending for capital expenditures (CAPEX) that increased from \$325 million to \$385 million.

This is good news for investors, as additional PP&E is used by the company to enhance its operations. The company ended the period with \$51 million in cash, but given its \$1.9 billion credit facility with \$900 million outstanding, investors don't need to lose any sleep.

But wait, there's more

Management cites three main objectives when it comes to capital management, which include funding its development and exploration programs, provide financial flexibility to execute on strategic opportunities and maintain a sustainable dividend policy.

Investors who are concerned about the company's ability to maintain its \$0.05 per share dividend payout should be comforted by the fact that the company's dividend is one of its main features, and management is dedicated to preserving it.

As the company is incorporated in Alberta, it will benefit from the corporate tax reduction from 12% to 8%. In the short-term it will benefit from income tax recovery (such as the \$88 million posted on its interims); in the long term it will benefit from an overall lower tax rate that takes less away from its net income.

Foolish takeaway

Investors looking for a passive income stock should [look into buying shares of ARC Resources](#). As mentioned above, while the company doesn't have the strongest financials, management appears to be dedicated to maintaining a stable dividend policy.

This should offer comfort to investors seeking to benefit from the 10% dividend yield but remain skeptical about the company's future prospects.

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