



3 Formidable Reasons to Buy Whitecap (TSX:WCP) Today

Description

Oil has rallied sharply over the last two weeks to see the North American benchmark West Texas Intermediate (WTI) up by 29% for the year to date and trading at US\$58 per barrel. While this will be a boon for energy stocks many Canadian drillers have failed to rally. **Whitecap Resources** ([TSX:WCP](#)) has lost 7% over the same period, despite crude's solid rally, creating an opportunity to acquire a quality upstream oil explorer and producer. Aside from an attractive valuation, now is the time to buy Whitecap because investors can lock in a juicy 8% dividend yield.

Trading at a discount

Key to Whitecap's attractiveness as a play on higher crude is that the driller is trading at a deep discount to its net asset value. The company's proven and probable oil reserves, after having a 10% discount applied in accordance with industry methodology, have been independently determined to have an after-tax value of \$5.5 billion. After deducting long-term debt, leases, and decommissioning liabilities, Whitecap has a net asset value of \$8.39 per share, which is double its current market value, highlighting the considerable upside available and that now is the time to buy.

Sustainable dividend

A key characteristic that is attracting the attention of investors is Whitecap's monster dividend yield of 8%. There have been claims that such a high yield indicates that the payment is unsustainable, but there are signs that the dividend will [remain untouched](#). Not only will higher crude support the payment, but there is every indication that it can be sustained, even if crude collapses and WTI falls to as low as US\$45 per barrel. While Whitecap's dividend-payout ratio as a function to net income is a whopping and very unsustainable 263% over the last 12 months, the payment is a very manageable 22% of diluted funds flow from operations per share.

The driller estimates that if WTI averages US\$55 per barrel during 2019, then it will have a total payout ratio of around 80% and that increases to 83% if the North American benchmark only averages US\$50 per barrel. Since the start of 2019, WTI has averaged around US\$57 per barrel, well above the driller's

projections, indicating that the dividend is sustainable in the current difficult operating environment. For 2020, Whitecap anticipates that the total payout ratio will fall to 76% if WTI averages US\$57 per barrel over the course of the year, further indicating that the dividend payment is sustainable.

Even if oil collapses, as some pundits have predicted will [occur in 2020](#), there is every sign that the dividend is fully funded, even if WTI falls to as low as US\$45 per barrel.

For these reasons, it is highly unlikely that Whitecap will cut its dividend.

Solid financial position

Unlike many of its peers, Whitecap didn't gorge itself on debt at the height of the last oil boom to fund acquisitions of questionable quality. This sees it possessing a solid balance sheet with \$1.2 billion in long-term debt, which is a manageable 1.8 times FFO. Whitecap expects this ratio to fall to a conservative 1.6 times by the end of 2019 and then to a very manageable 1.5 times by the end of 2020.

That emphasizes the driller's considerable financial flexibility, meaning that it is well-placed to weather another oil price collapse and can sustain its dividend for the foreseeable future.

Foolish takeaway

Whitecap is a very attractively valued play on higher crude. It has proven itself capable of weathering the current difficult operating environment and weaker crude while sustaining its dividend payment. There is every indication that Whitecap will soar once oil rebounds and moves higher for a sustained period. When it is considered that Whitecap is trading at half of its NAV per share, there is clearly considerable upside ahead for patient, risk-tolerant investors who will enjoy the juicy 8% yield while they wait for its stock to appreciate.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. TSX:WCP (Whitecap Resources Inc.)

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