



Buy This Canadian Driller Today and Lock in a 7% Yield for 2020

Description

Oil has rallied strongly since OPEC and its partners announced that they would shave another 500,000 barrels daily off their collective oil output.

The North American benchmark West Texas Intermediate (WTI) has gained 27% since the start of 2019 to be trading at around US\$60 per barrel and appears poised to move higher. This will be a boon for energy stocks, with many failing to keep pace with crude.

One that stands out is upstream oil explorer and producer **Whitecap** ([TSX:WCP](#)), which has failed to keep pace with WTI and gained a mere 2.5%. This leaves it very [attractively valued](#), creating a contrarian opportunity to acquire a quality driller at a compelling valuation while locking in a juicy 7% dividend yield.

Trading at a discount

Whitecap is focused on the production of light and medium crude, ending 2018 with oil reserves of 489 million barrels, 79% of which are weighted to oil. It's estimated that Whitecap is trading at around an 86% discount to the after-tax net asset value (NAV) of its oil reserves, highlighting the considerable upside available.

Even more compelling is Whitecap's regular monthly dividend yielding a very juicy 7%. There is, however, considerable speculation that the payment could be cut, especially if oil remains weak.

Nonetheless, there are signs that a dividend cut is unlikely and that the payment is safe, even if oil softens once again. Whitecap expects to generate \$305 million in free funds flow for 2020 and have a total payout ratio of 76% if WTI averages US\$57 per barrel, which is the price the North American benchmark has averaged since the start of 2019.

That indicates Whitecap's 2020 guidance is realistic and can be achieved, particularly amid an operating environment that sees crude rallying.

Even if there is another oil price collapse, such a low total payout ratio, it provides plenty of room to absorb a decrease in free funds flow while ensuring that the dividend remains sustainable.

Whitecap also has the opportunity dial back spending on exploration and well development if there's another price collapse, as its operations are internally funded even if WTI falls to as low as US\$45 per barrel.

The driller's attractiveness as a play on higher crude is enhanced by its solid balance sheet. Whitecap finished the third quarter 2019 with \$1.2 billion of net debt and a conservative debt to EBITDA ratio of 1.7, indicating that it possesses considerable financial flexibility, further underscoring the sustainability of the dividend.

Foolish takeaway

Whitecap remains one of the best local plays on higher oil, with its focus on maintaining balance sheet strength and cash flow poised to pay deliver value for investors in 2020 as [crude moves](#) higher.

The driller's combination of quality oil reserves, strong balance sheet and its attractive valuation, underscored by it trading at a deep discount to its NAV, highlights the considerable upside available, making now the time to buy.

Patient investors will be rewarded by Whitecap's dividend yielding a juicy 7% while they wait for its stock to appreciate.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

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Date

2025/08/23

Date Created

2019/12/16

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