Buy This Oil Stock Today to Lock In a +6% Yield and Profit in 2020

Description

Surprisingly, despite the North American benchmark West Texas Intermediate (WTI) gaining a notable 32% during 2019, energy stocks delivered a disappointing performance. **SPDR S&P Oil & Gas Exploration & Production ETF**, which is a solid indicator of market sentiment toward the energy sector, lost 13% last year, indicating there is still considerable value to be found among energy stocks.

One that stands out for all the right reasons is intermediate upstream oil producer **Whitecap Resources** (TSX:WCP). The driller has rallied by a healthy 17% over the last year, beating the broader market, as highlighted by the **S&P/TSX Composite Index** rising by a mere 15% and WTI gaining a modest 7% after pulling back sharply in recent days. There are signs that Whitecap, which is paying a dividend yielding 6.4%, will unlock considerable value for shareholders over the long term.

Highly profitabile

Whitecap anticipates producing on average during 2020 around 72,000 barrels of crude daily, which, at a forecast median WTI price of US$60 per barrel, will generate free funds flow of $310 million and give the driller a total payout ratio of 75%.

Those impressive numbers highlight that the dividend is sustainable and that Whitecap will generate considerable free cash flow, which can be directed to strengthening its balance sheet. The driller expects to finish 2020 with net debt that is a very manageable 1.5 times funds flow.

There is some concern that WTI won't average US$60 per barrel during 2020, particularly after oil's latest weakness, with it pulling back sharply after Teheran's tepid response to a U.S. airstrike that led to the death of a leading regime figure. Even the ongoing proxy war for regional dominance between Iran and Saudi Arabia, along with threats against tanker traffic passing through the Straits of Hormuz has done little to buoy prices.

There are also some industry analysts who believe that another oil price crash could occur during the second half of 2020. The latest oil rally was primarily triggered by overblown fears of a war between Iran and the U.S. which didn't eventuate, with Teheran making it clear that it was seeking to avoid an all-out conflict.

Even OPEC and Russia's decision to shave an additional 500,000 barrels daily off their collective output has done little to buoy oil, because the additional cuts will only be in place during the first quarter of 2020. This means oil could soften further, with WTI potentially falling to as low as US$50 per barrel, although the U.S. Energy Information Administration (EIA) expects the North American benchmark to average US$59 per barrel during 2020.

Nonetheless, even if WTI only averages US$55 per barrel during 2020, Whitecap still anticipates generating $232 million in free funds flow and expects to have a payout ratio of 85%, meaning that the dividend remains sustainable.

Whitecap has also hedged 47% of its first half 2020 oil production and 40% for the second half, further protecting it from the downside risk posed by weaker oil and another price collapse. There is every indication that the driller's dividend is protected, even if WTI falls to as low as US$45 per barrel with Whitecap still capable of generating around $250 million in free funds flow.

Foolish takeaway

Whitecap's considerable long-life oil reserves coupled with a focus on boosting profitability by reducing costs and strengthening its balance sheet make it a very appealing play on higher oil. While investors wait for oil to firm and Whitecap's stock to appreciate, they will be rewarded by its sustainable dividend yielding a very juicy 6.4%, making now the time to buy.

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

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Date
2025/08/18

Date Created
2020/01/21
Author
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