2 Attractive Dividend Yielding Companies That Might Turn Out to Be Quicksand

Description

It's easy to take a look at the carnage in the stock market over the last month and assume that all stocks are available for a bargain. However, there are major differences between good stocks that have been beaten down and stocks whose true value has been exposed for all to see. This certainly holds true for the oil and energy sector, which has been hit by a one-two punch thanks to COVID-19 and the price war between Saudi Arabia and Russia.

The world is starting to accept that it will be a quarter, at least, before the global economy starts limping back to normalcy, if – and it's a big IF – COVID-19 is brought under control. The oil price crisis is another story altogether. Saudi and Russia are pumping cheap oil into the world. The challenge for them is that the world doesn't need their oil. Airplanes aren't flying and people aren't driving. Crude in Canada now costs more to ship than to buy.

This means oil companies' revenues and cash flows will come to a standstill. If low prices continue for beyond a quarter (unlike the 2014 oil crisis), high-cost oil producers will cut expenditure and delay new projects. Companies with poor fundamentals will collapse. Thos with weak cash balances will find that there is no money to return to shareholders. Dividend payments will have to be decreased cut.

Husky Energy (TSX:HSE) has reduced its 2020 capital program by $900 million. This represents a 33% reduction in upstream spending plus $100 million in additional cost-saving measures. The company has also stopped major construction activities related to the West White Rose Project.

Analysts always sell Husky as a dividend story. After all, the company's forward yield is almost 14%. I wrote about Husky in January and cautioned investors against buying into the dividend play. The dividend yield for Husky has risen over the last 11 months because the share price has fallen. It used to trade at $14.78 in April 2019. It's now at $3.21, after hitting a 52-week low of $2.21. The dividend has fallen from $1.2 in 2015 to $0.5 now.

The company recorded revenues of almost $20 billion in 2019 and negative earnings of $1.37 billion. If 2019 was bad, imagine how much worse 2020 is going to be.

Cenovus Energy might be a value trap

Another supposed dividend play is **Cenovus Energy** (TSX:CVE)(NYSE:CVE). Cenovus is one of the best companies in Canada in the oil sands space. I would normally recommend that investors to buy into this stock at such cheap prices. The stock has lost over 80% of its value, falling from $12.23 on February 20 to $2.41 today.

However, the uncertainty over oil prices and COVID-19 means this is a no-go area for me. Just look at shale producer **ConocoPhillips**. It accepted 208 million Cenovus shares as part-payment for its oil sand and natural gas assets. The shares that were valued at $2 billion a couple of years back are worth just $624 million now.

It's a very uncertain time for oil-producers right now and you would do better to look at blue-chip companies like **Suncor Energy** if you want a good dividend stock at a bargain price in this sector.

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Date
2025/08/20
Date Created
2020/03/31
Author
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