Accelerating Cash Flows: 2 Energy Stocks Raise Dividends

Description

Income investors are thrilled with the dividend increase announcements in the last two months of 2021. Federally regulated financial institutions have resumed dividend hikes and share buybacks. Meanwhile, the cash flows of energy companies are accelerating in that many can afford to raise or restore payouts to shareholders.

You can ride the oil boom and purchase exciting energy stocks that raised their dividends recently. **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) hiked its yield by 25%. **ARC Resource**s (TSX:ARX) approved a 52% dividend increase. Besides the dividend hikes, the two energy constituents have gained up to 80% this year.

Diverse product mix

Canadian Natural Resources is one of the Canada Pension Plan Investment Board's (CPPIB) top holdings in Canada's energy sector. In the nine months ended September 30, 2021, $9.76 billion cash flows from operating activities increased 183.6% to $9.76 billion compared to the same period in 2020.

Tim McKay, CNR's president, said, "Our diverse product mix is a competitive advantage, as we can allocate capital to the highest return projects without being reliant on any one commodity." Regarding the Q3 2021 results, CFO Mark Stainthorpe said the robust business model delivered strong net earnings of over $2.2 billion and adjusted net earnings of approximately $2.1 billion.

Management added that the returns to shareholders of about $3.1 billion year to date indicates balance sheet strength and sustainability of the business model. The $60.24 billion independent crude oil and natural gas producer boasts world-class, long-life, low-decline assets with low maintenance capital requirements relative to the size and quality of the assets. At $51.19 per share, the dividend yield is 4.5%.

Sustainable profitability

ARC Resources is smaller ($8.6 billion) than CNR, but management said the dividend increase reflects its conviction in the business that has increased profitability. It's also sustainable in a low commodity price environment. Performance-wise, the energy stock outperforms with its 81.3% year-to-date gain. The share price is $10.66, while the dividend yield is 3.57%.

After three quarters in 2021, net income reached $108.6 million versus the $668 million net loss in the same period in 2020. Notably, cash flow from operating activities soared 197.5% to $1.35 billion year over year. After Q3 2021, free funds flow topped $894.9 million — a 373.2% growth versus Q3 2020.

Furthermore, ARC has completed the integration with Seven Generations Energy (formerly a CPPIB holding). The oil, gas, and condensate producer expects to capture identified synergies (more than $160 million) by year-end. Apart from the guiding principles of capital discipline and risk management, ARC's primary long-term mechanism is sustainable dividend growth.

Top-performing sector

TSX's energy sector is on track to end the year as the top performer, unseating the technology sector. Would-be investors can earn in two ways from Canadian Natural Resources and ARC Resources — through price appreciation and dividends. With oil prices projected to hit US$150 per barrel, cash flows could accelerate further.

Likewise, the stocks' upward momentum is likely to continue in 2022. If you want a third option, include another high flyer in your watchlist. **Vermilion Energy** is up 121.13% year to date and plans to reinstate dividends by Q1 2022. Its free cash flow increased 519.2% to $368 million after nine months in 2021.

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