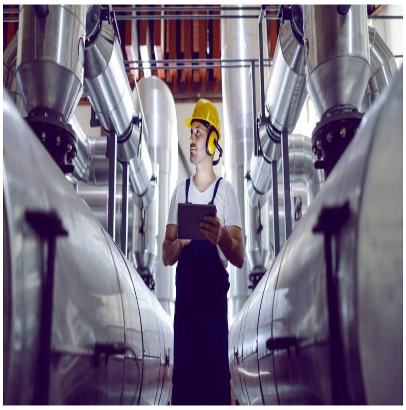

Oil Stocks: The Dividends Don’t Lie

Description

Oil stocks have risen a lot this year. U.S. Energy stocks ended the first half of the year up 29%, Canadian oil companies delivered similar performance. Oil prices rallied all through the first half, and energy stocks rose with them.

However, the oil & gas trade has been volatile lately. This year’s rise has been far from a smooth one. In recent weeks especially, oil prices have swung up and down violently. Central banks are raising interest rates this year trying to tame inflation, and oil is one of the commodities they’re targeting. If last week is any indication, their efforts are working.

That’s good news for most people, but not for oil & gas investors. Thanks to the beating oil prices took last week, Canadian oil stocks took a significant dip. Some oil stocks fell as much as 7.5% in one week. This year, oil stocks have been strongly correlated with crude prices, since crude prices determine E&P companies’ revenue. Investors think that when oil prices go down, oil stocks become less valuable. This perception is partially correct: *long-term* oil prices influence oil companies’ profits. Day-to-day fluctuations don’t matter much, but they add up over time.

However, the selling in oil stocks appears to have been overblown. Oil companies themselves think that profits will be high this year, as evidenced by the fact that they have raised their dividends. In this article, I will make the case that oil companies’ dividend policies signal high confidence in their financial prospects, drawing on **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **Suncor Energy** (TSX:SU)(NYSE:SU) as case studies.

Cenovus Energy triples its dividend

Cenovus is a Canadian energy company that sells oil and runs the Husky Energy gas station chain. Following its most recent quarterly earnings release, Cenovus tripled its dividend. In the first quarter, CVE delivered $1.365 billion in cash from operations, $2.58 billion in adjusted funds flow, and $1.6 billion in net income. All of these figures were up by triple-digit percentages year over year. The company also paid off some debt. Thanks to the high oil prices that prevailed in the first quarter, CVE was able to grow its earnings considerably. And due to the debt repayment, it will be able to grow its earnings going forward, even if oil prices only stay flat.

Suncor Energy hikes the dividend 12%

Suncor Energy is another Canadian oil company that hiked its dividend following its first-quarter release. The release showed a roughly 100% increase in funds from operations, net income grew even more than that. The dividend hike following the release was 12%. In the quarter prior, Suncor doubled its dividend after slashing it in half in 2020. Clearly, Suncor's dividend decisions indicate that management thinks the company's future is better than its past. Indeed, it likely is if oil prices can just hold above $90.

Foolish takeaway

When we look at the dividend hikes Canadian oil companies are doing this year, we see a clear picture emerge.

Management believes the future is rosy. Sure, oil prices sometimes paint a different picture, but oil prices have always been volatile. Energy industry leaders think that prices will remain high enough to support high dividends. That alone is reason enough to be interested.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/06/28
Date Created
2022/07/12
Author
andrewbutton