2 Canadian Energy Stocks That Doubled Their Dividends

Description

Energy stocks, particularly oil and gas producers, have been big winners since the pandemic market crash due to multiple factors, including the Russia-Ukraine war and inflation, which drove energy prices much higher.

For example, **Whitecap Resources** (TSX:WCP) stock has grown investors' money eight-fold from the pandemic market crash bottom of about $1.17 per share. **Parex Resources** (TSX:PXT) uses less leverage, so the energy stock has doubled from the market crash bottom.

These oil stocks can still do well over the next year as energy prices remain elevated. At writing, the oil prices are as follows:

- WTI oil price: +US$95 per barrel (vs. US$49 at end of 2020)
- Brent oil price: +US$101 per barrel (vs. US$51)
- Western Canadian Select: +US$79 per barrel (vs. US$33)

Primarily because of energy prices that are still high, oil and gas producers like Whitecap Resources and Parex Resources are gushing cash! Whitecap Resources have been able to pay down its debt, buy back its common stock, and increase its dividend significantly, while Parex Resources has had more cash to buy back shares at cheap valuations and started paying a dividend in September 2021.

One Canadian energy stock is still dirt cheap

Whitecap Resources has a market cap of about $5.9 billion. It is gushing cash. Its trailing 12-month (TTM) free cash flow of over $1 billion is four times the 2020 levels. High energy prices played a big roll in the big cash flow generation, but management also strategically bought Torc Oil and Gas in December 2020 when energy prices were low.

The oil stock has been sharing profits with its shareholders. In the TTM, other than buying back closeto $274 million in common stock, it also paid almost $176 million in dividends. In fact, it still had closeto $606 million of free cash flow left over.

The operating environment is still very favourable such that Whitecap resources just raised its dividend by 23% last month. On a TTM basis, its dividend has more than doubled by increasing 103% year over year!

It also took care to reduce its debt. Its debt-to-asset ratio has shrunk from 70.5% at the end of 2020 to much safer levels of 39.5% at the end of the second quarter (Q2).

At $9.60 per share at writing, the energy stock yields 4.6% and trades at about 3.1 times cash flow.

This Canadian energy stock is a safer play

When energy prices turn the other way, things can get really rough for oil and gas producers. However, Calgary-based Parex Resources has played it safe all the way, which is why the oil stock has been a smoother ride versus other oil and gas producers. That is, it would have less downside should energy prices turn south. Parex Resources is smaller than Whitecap Resources at a market cap of about $2.8 billion. Therefore, it makes good sense for it to run its company more conservatively.

In the TTM, other than buying back close to $256 million of its common stock, it also paid almost $61 million in dividends. It had close to $23 million of free cash flow left over.

Parex Resources had little debt to begin with. At the end of 2020, its debt-to-asset ratio was 13%. It last reported a ratio of 25% at the end of Q1. So, it took a different approach than Whitecap by raising its debt levels to grow the business in a high energy price environment.

The oil stock's quarterly dividend is exactly double from when it initiated it. Its annualized payout is $1.00 right now. At writing, Parex Resources yields 4.2% and trades at about three times cash flow.

Food for thought

Investors need to be careful with energy stocks that are impacted by volatile energy prices. Whitecap and Parex has had a good run already. Although they still appear to be super cheap and their dividends are safe, the situation can turn quickly. Parex is a safer investment due to its lower debt levels. Generally, it's the best time to pick up oil stocks when no one wants them, such as during the pandemic market crash.

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kayng