Should You Buy Whitecap Resources Stock for its 4.75% Dividend Yield?

Description

Companies operating in the oil and gas sector are extremely crucial to the economy. These companies provide fuel to power vehicles and supply core petrochemical ingredients to produce a wide range of products from plastics to rubber.

But the oil industry is highly cyclical, volatile, and competitive. Most oil producers generate profits and losses based on global demand as well as oil-producing targets of countries such as Russia and Saudi Arabia. We have seen how an imbalance in supply sent crude prices spiraling upwards due to Russia's invasion of Ukraine.

Despite the worldwide shift towards clean energy solutions, the demand for oil is expected to remain strong over the next few decades. With these factors in mind, let's see if **Whitecap Resources** (TSX:WCP) should be part of your portfolio right now.

What does Whitecap Resources do?

Whitecap Resources is an oil and gas company. It acquires and develops natural gas and petroleum properties in Canada. Whitecap's principal properties are located in west central Alberta, British Columbia, southeast Saskatchewan, west central Saskatchewan, and southwest Saskatchewan.

It's a mid-cap stock valued at $6 billion. Due to rising oil prices, shares of Whitecap Resources have surged 74% in the last year and are up 32% year to date. But the stock is also trading 23% below all-time highs.

Due to an inflationary environment, Whitecap managed to outpace consensus estimates in the first two quarters of 2022. It maintained operational momentum in the second quarter (Q2) and produced 132,293 barrels of oil equivalent per day (boe/d), allowing the company to generate a record funds flow of $677 million, or $1.08 per share.

Whitecap spent $88 million in capital expenditures in Q2, indicating a free cash flow of $589 million. It paid $175 million to shareholders via dividends, given annual payouts of $0.44 per share. So, it offers investors a tasty forward yield of 4.75%.

Whitecap's robust cash flows enabled the company to lower net debt by $125 million to $674 million in the June quarter. Last year, it targeted net debt of $800 million by the end of Q2.

Whitecap Resources expects to keep its debt-to-EBITDA (earnings before interest, tax, depreciation, and amortization) multiple below four and ended the quarter with a ratio of just 0.5.

Is Whitecap Resources a good investment?

Whitecap's current asset mix should drive cash flows higher for the rest of 2022. It recently inked a deal to acquire XTO Energy for $1.9 billion. The deal is expected to close by the end of Q3, and Whitecap also remains on track to deploy between $610 million and $630 million in capital expenditure this year.

The XTO Energy acquisition will be completed without any dilution to shareholders, showcasing Whitecap's strong balance sheet and its ability to generate significant free cash flows.

In 2023, it forecasts to produce between 168,000 and 174,000 boe/d, while capital expenditures are forecast at $1 billion.

Whitecap projects to increase its free cash flow by 147% to $1.65 billion this year, reducing its payout to 39% in 2022 from 50% in 2021. Due to its stellar metrics, the company pays investors a monthly dividend of $0.0367 per share, up from $0.01425 per share in April 2020.

If you expect oil prices to remain elevated, you can invest in a fundamentally strong company such as Whitecap Resources right now. The stock is also trading at a discount of 50% compared to Bay Street price target estimates.

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