Taking Stock: Canadian energy trusts may have desired earning power

by Malcolm_Berko

Dear Mr. Berko: I need high income. But I don't want to invest my money in bonds or preferreds, which are fixed-interest issues so the income never increases. I'd like to invest between $90,000 and $110,000 in common stocks that pay dividends and have at least a 10 percent dividend yield. I want common stocks because the dividend is not fixed and can go up (fall too) if the company does well. I want to invest this Individual Retirement Account money in common stocks that yield at least 10 percent. And I can afford to take this risk because this money is in my wife's IRA, which is much smaller than mine. If we lose it I still have a good pension, my decent-sized IRA and my wife and I have a good Social Security. I know there are 10 percent and better issues out there but I need help on finding the best.

E.C.

Durham, N.C.

Dear E.C.: I sure hope you have your wife's permission to do this. If not, you may need her permission to get out of jail if the investments fail.

Since your IRA is much bigger than your wife's, wouldn't it make more sense to gamble with yours? I don't understand your thinking unless you believe that $100,000 in your wife's IRA is less important than $100,000 in your IRA. I hope your better three-quarters knows what you are doing. I assume that you can afford the risks.

I hope you are aware of the Canadian tax implications that are supposed to become effective by 2011, which may take a big bite of that dividend income. Each of the companies below is attempting to restructure business to avoid the higher Canadian tax bite by folding assets into an American master limited partnership. MLPs may give Canadian energy trusts a vehicle to raise new monies, avoid taxes and continue paying out rich dividends.

Some of these trusts may convert to the MLP structure while others may be acquired by an existing U.S. MLP. Either way, this may cause many Canadian energy trusts to move to a substantial premium.

U.S. MLPs have an average value between $165,000 and $180,000 for every barrel of oil equivalent they produce a day. However, the average Canadian energy trust is valued between $65,000 and $75,000 per barrel of daily production. But this change of corporate structure is not a given and the conversion process won't be a smooth undertaking.

These Canadian trusts will have to work their way around a complex web of legal and tax issues. However, I suspect that Wall Street's elite, who can smell a dime buried in a landfill, will "finger" out an ingenious solution. After all, the U.S. purchases more oil from Canada than it does from the Mideast or Mexico.

So here are some of the best picks among the 35 or so Canadian energy trusts.

- Enerplus Resources Fund (ERF-$47.49) trades at 12 times earnings and the $4.76 dividend yields 10.2 percent.

- Penn West Energy Trust (PWE-$33.98) trades at 13 times earnings and the $3.81 dividend yields 11.50 percent.

- Baytex Energy Trust (BTE-$20.16) trades at 12 times earnings and the $2.02 dividend yields 10.2 percent.

- Harvest Energy Trust (HTE-$31.36) trades at a price-earnings ratio of 16 and the $4.19 dividend has a 13.5 percent yield.

- Primewest Energy Trust (PWI-$21.26) trades at 14 P/E and its $2.81 dividend yields 13.4 percent.

- Provident Energy Trust (PVX-$12.30) trades at 15 times earnings and the $1.35 dividend yields 11 percent.

- Canetic Resources Trust (CNE-$16.17) has a 24 P/E and its $2.13 dividend yields 13.2 percent.

- Pengrowth Energy Trust (PGH-$19.14) has a 32 P/E and its $2.80 dividend yields 14.5 percent.

There are eight issues here and "don't cherry pick." So I'd invest your wife's money evenly in each issue and pray that the price of oil remains in the $60 range. And I wish you enormous success.

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