Enterra Energy Trust halts distributions, Wellco and Pengrowth cut payouts

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CALGARY (CP) - Income-trust distribution malaise spread through the oilpatch Monday as Enterra Energy Trust (TSX:ENT.UN) suspended its payout while Wellco Energy Services Trust (TSX:WLL.UN) cut its distribution in half.

Those moves followed a 10 per cent distribution reduction Friday by Pengrowth Energy Trust (TSX:PGF.UN) and extended a wave of payout disappointments for investors, particularly in energy services trusts.

Enterra halted monthly distributions "until further notice, but for a minimum period of six months" to repay debt. The conventional oil and gas trust, which last Wednesday said it was seeking to sell assets, said it is in compliance with debt covenants but this could change within days unless cash was conserved immediately.

The weakness in the energy trust sector is tied to Ottawa's decision to tax energy trusts in 2011 said a spokeswoman for a coalition representing 40 energy trusts,

"It has a lot to do with the changes that were announced Oct. 31 for sure. It's definitely something that we warned the finance minister of when it first happened," said Sue Riddell Rose, CEO of Paramount Energy Trust (TSX:PMT.UN) and co-chair of the Coalition of Canadian Energy Trusts. Rose said Paramount has announced two cuts in distribution so far, the most recent in July.

"This was certainly one of the fallouts that we cited and it really is reflective of our drop in unit prices which resulted from the announcement on October 31," she added. "We therefore had to change our models for sustaining the trusts and that has led to an erosion of distributions."

Currently, income trusts pay little or no corporate tax on earnings, which are passed on to unitholders as distributions.

Enterra units plunged $1.85 - or 47 per cent - to a new low of $2.07 on the Toronto Stock Exchange, down from over $13 late last year.

Wellco Energy Services Trust, meanwhile blamed its 50 per cent distribution cut on "prolonged weakness in western Canadian oilfield service activity, a consequence of continuing high natural gas inventories."

It will pay 3.5 cents per unit for September, while management reviews all its business lines.

Wellco units fell as much as 22 per cent to a new low of $3.15, down from $11.50 a year

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ago, trading later in the TSX session at $3.49, down 56 cents or 14 per cent.

It is Wellco's second distribution cut since it converted into an income trust in May 2002 with an initial monthly payout of eight cents per unit, subsequently raised to nine cents but then reduced in April to seven cents. The trust disclosed in May it was negotiating a possible sale of the enterprise, but nothing has developed from those talks.

The reduced payout "will permit Wellco to bring its distribution ratio within the desired target range and execute its long-term strategic plans," the firm said.

"The company's utilization rates in many of its product lines are tracking current drilling activity," the Calgary-based trust stated. "Nonetheless, Wellco does anticipate that its accommodation and catering business will have a good winter as a record portion of the fleet is committed to customers operating in the Alberta oilsands."

Wellco, which in addition to providing camps, trailers and catering has businesses in wastewater treatment, equipment rentals, production testing and service rigs, said it will provide timely information on its review of product lines "with the objective of improving shareholder value through the enhancement of opportunities in its core businesses."

Pengrowth said Friday it was trimming its monthly payout to 22.5 cents per unit from 25 cents "in order to provide additional capital for Pengrowth's active development program on its high-quality asset base." This base includes conventional oil and natural gas properties, along with potential investment in the oilsands and coalbed methane as well as possible foreign ventures.

"It's not a surprise as producers look at Q3 financial statements and looking at gas prices going forward," said Jill Angevine, an analyst with FirstEnergy Capital. "Currently they're making decisions on their capital allocations between distributions and spending here in the next quarter and trying to manage that process."

The income trust model has been a minefield for small investors, particularly in the energy services business, commented Toronto-based investor advocate Diane Urquhart.

She tallies that 42 per cent of Canadian energy services trusts have suspended or significantly cut their distributions - seven reductions and one suspension among 19 trusts, which she calls the worst distribution performance among all income trust sectors.

Among energy producing trusts, she added, Enterra is the first to eliminate its distribution but six others have reduced their payouts, out of a total of 48.

"This is too high a distribution-cut percentage for an income security that was marketed to seniors for the purpose of paying household expenses and where capital preservation was said to be paramount," said Urquhart, a critic of the whole income trust phenomenon.

"Unfortunately, the vendors, investment banks and their securities lawyers had far too high an incentive to convert corporations into income trusts for very large upfront fees, stock option proceeds and other cash proceeds to behave responsibly."

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