3 Top Energy Stocks Yielding Up to 7.5%

Description

“The meek shall inherit the earth, but not its mineral rights.” — J. Paul Getty

Growth investors are fascinated by the miracle of surging U.S. oil production. However, the oil patch isn’t just for Stetson-sporting wildcatters. It’s also a great place for income investors who enjoy the steady stream of dividends.

But with so many companies out there, I had to whittle down the list based on a few key criteria:

- **Growth:** Slow-growing integrated giants just wouldn’t cut it. I wanted companies that could deliver serious output growth to drive earnings and dividends for years to come.
- **Yield:** No more of these 1% or 2% payouts. I wanted a nice, tall payout that could generate monster cash flow immediately.
- **Safety:** Energy prices are volatile. That’s why I looked for a strong balance sheet and ample cash flow to survive if industry conditions took a turn for the worse.

With these things in mind, here are three top income picks from Canada’s oil patch.

1. Crescent Point Energy

This Bakken producer has a lot of things going for it. Need an example? Look no further than **Crescent Point Energy’s** (TSX: CPG)(NYSE: CPG) 2013 annual report: double-digit production growth, 28% growth in funds flows from operations, and 107 million barrels added in new reserves.

Investors can count on that experience to continue. The company is sitting on some of the hottest shale plays in the country, namely the North Dakota Bakken and the Utah Uinta Basin, and recently boosted its position in the emerging Saskatchewan Torquay. New technologies like waterflooding could vastly increase the number of recoverable barrels the company is sitting on.

Of course, most investors are really only concerned about the stock's 6.3% yield. Crescent Point is paying out less than half of its funds from operations — the lowest ratio in the company's history. This suggests that a dividend hike may be in the cards.

2. Canadian Oil Sands Ltd.

A nice way to pick up a fat dividend and to position your portfolio for higher energy prices is **Canadian Oil Sands Ltd.** (TSX: COS), the owner of the largest stake in the Syncrude mega oil-sands project.

There has never been a better time to add this stock to your portfolio. In April, news of unplanned maintenance at the Syncrude facility sent shares tumbling. However, when you consider that the mine has a 40-year reserve life, the sharp sell-off seems like a classic market overreaction by investors only thinking of the next quarter.

When you look beyond 2014, Canadian Oil Sands' outlook looks pretty good. The company's capital spending program is winding down this year as it completes its major buildout. This will free up an enormous amount of cash flow to pay down debts, buy back stock, and issue dividends. Today, the stock yields 6.1%, but shareholders can expect that payout to grow over the next few years.

3. Long Run Exploration

Long Run Exploration's (TSX: LRE) yield-plus-growth business model gives investors the best of both worlds. The company also has a great set of low-cost, low-decline assets in the Peace River Montney, Redwater Viking, and Cardium plays. And while Long Run isn't expected to shoot the lights out with the rapid expansions typically exhibited by juniors, investors can count on a steady 5% to 10% production growth rate combined with a sensible dividend and a strong balance sheet.

Best of all, the stock stands out in today's yield desert like an oasis. Long Run Exploration is the latest Canadian energy producer to join the dividend club after announcing that it will pay a $0.03 monthly payment, implying a whopping 7.5% yield.

The bottom line: upstream oil and gas isn't the safest place to look for yields. There are certainly more reliable distributions further downstream in businesses like pipelines and terminals. However, for investors with a little extra tolerance for risk, these stocks are a nice addition to any income portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
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