Shop for Higher Yields With Suncor Energy Inc. and Vermilion Energy Inc.

Description

Every investor who got into any energy company in the past one-and-a-half years probably wants to get out because they're likely to be in the red. However, remember that we aren't in the market to get quick gains. That's called gambling.

We're investing for the long term. When an industry is experiencing difficulties, we need to hold on patiently. Actually, we should always hold on patiently, otherwise you won't get the long-term gains. By holding a company for decades, some investors have experienced gains of 1,000%!

Still, we don't want to hold on to just any company. We want to buy and hold ones that can weather the storms and come out stronger. A lowered price and a maintained dividend implies a higher yield. Here are two energy companies that have followed the oil price down, but have maintained their dividends: **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), and **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET).

Company	Price	Market Cap	Yield	S&P Credit Rating
Suncor	$35.2	49.3 billion	3.2%	A-
Vermilion	$48.1	5.2 billion	5.4%	BB-

Stable dividends

Suncor has actually increased dividends for 12 years in a row. Its last increase was about one year ago with a hike of 21.7%. However, keep in mind that that was when the oil price was US$95 and up. Today, oil is at about US$50, so it'd be great if Suncor could maintain its current dividend.

Vermilion hasn't cut its dividend since 2003, but has occasionally been increasing it. In this low oil price environment, I expect it to maintain the dividend at a minimum.

In 2008-09 the oil price hit a low of US$30 briefly before bouncing back to US$70 in six months before stabilizing. During that period of low oil prices both companies were good to shareholders in that they kept their dividends stable, so shareholders didn't receive an income cut.

Good past performance

The concern is that the current low oil price dragged on for an extended period of time, so the companies that perform well relative to peers provide a smoother ride.

Compared with its peers, Suncor didn't drop as much in the one-year period, and has positive returns in the three-year, five-year, and 10-year periods. The only company that's a more stable performer is **Imperial Oil Limited**.

Vermilion's funds-from-operations come from France, Australia, the Netherlands, Ireland, Germany, and Canada. Its international exposure increases its business performance stability. When comparing Vermilion Energy with its mid-cap peers, it has outperformed them in total returns in the one-year, three-year, five-year, 10-year, and 15-year periods.

In conclusion

Because of the drop in oil prices, income investors can now buy Suncor and Vermilion for juicier yields than before. At the end of 2013 Suncor's yield was 2% and Vermilion's was 3.8%. Now, investors can buy them for yields of 3.2% and 5.4% yields, respectively. Their dividends are more predictable and stable than their peers in general.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VET (Vermilion Energy)
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