Hidden Dividend Gems in the Energy Sector

Description

The energy sector is probably the last place investors want to look at right now. Why is that? Well, in a matter of five months, the oil price dropped from over US$100 to US$50. Yes, there was a bounce to US$60 for a couple months, but it is below US$50 now.

The first companies that might come to your mind to get exposure to the energy sector are the big energy companies such as **Suncor Energy Inc.** and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB). The former is down 27% from its 52-week high, while the latter is down 15%.

Both companies yield 3.4%, but there are higher yield possibilities to consider. However, higher yields typically come with higher risk. The risk being that these are smaller companies, and their balance sheets and financial stability won't be as strong as the bigger players. With that understood, here are some hidden gems with higher yields and higher capital appreciation potential.

5.9% yield opportunity

Vermilion Energy Inc (TSX:VET)(NYSE:VET) is down 41% from its 52-week high. It is a mid-cap oil and gas exploration company with a market capitalization of $4.7 billion. Its debt-to-cap ratio is 35%.

Vermilion's advantage is that its business is diversified internationally with core areas in Canada, Europe, and Australia. So, its dividend is also more stable. From 2003 to now, it hasn't once cut its dividend.

It pays a monthly dividend that yields 5.9% at Friday's closing price of under $44 per share. Buying 100 shares, an investment of under $4400, you get $21.50 per month.

7% yield opportunity

Whitecap Resources Inc. (TSX:WCP) is down 36% from its 52-week high. It is another mid-cap oil and gas exploration company with a market capitalization of $3.2 billion. Its debt-to-cap ratio is 24%.

Whitecap is focused on providing sustainable monthly dividends to its shareholders. It has a hedging program to provide greater predictability over its cash flows and dividend payments. Since starting to pay a dividend in 2013, the dividend has grown 25% or roughly an annualized rate of 9.3%. Buying 100 shares, an investment of under $1,100, you get $6.25 per month.

5.6% yield opportunity

Inter Pipeline Ltd (TSX:IPL) is down 31% from its 52-week high. It is a smaller pipeline compared to Enbridge and **TransCanada Corporation**. Inter Pipeline market cap is $8.8 billion. Its debt-to-cap ratio is 41%.

Inter Pipeline transports and stores petroleum as well as extracts natural gas liquids. It owns and operates energy infrastructure assets in western Canada and northern Europe.

For six years in a row, Inter Pipeline has increased its dividend at an average annualized rate of 8.5%. Buying 100 shares, an investment of under $2700, you get $12.25 per month.

In conclusion

The oil price remains low and volatile, so I don’t recommend Foolish investors buying a lump sum, but instead to dollar-cost average into energy companies of their choice.

I believe all companies above provide investors with an above average yield while waiting for the oil price to stabilize and rebound in a few years’ time, assuming there’s a long-term demand of energy.

By the way, there’s no reason to buy 100 shares specifically. I used that as an example above for easy calculation of dividends. Investors should always buy shares in any company with allocation of the amount of capital used, not the number of shares purchased.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:VET (Vermilion Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:VET (Vermilion Energy Inc.)
5. TSX:WCP (Whitecap Resources Inc.)

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