Turnaround Opportunities in Mid-Cap Energy Dividend Stocks

Description

When people think about investing in turnaround stocks in the energy industry, they might think about the big names first. **Suncor Energy Inc.**, **Enbridge Inc.**, and **TransCanada Corporation** are probably the first big-cap energy stocks that come to your mind. No doubt they're the safest stocks for a turnaround in the energy industry.

Next, if investors are looking for even more price-appreciation potential, they might consider buying mid-cap stocks that have passed the small-cap phase, and therefore, are less risky.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is a popular mid-cap energy stock that has fallen from a 52-week high of $41 to as low as $4. Today, it has recovered to $5.5, a 38% gain from the low—that is, if you managed to scoop it up at the lows. However, Baytex has had negative earnings three different times in the last 18 years.

If you're looking for safer mid-cap energy stocks for turnaround opportunities, you can start with these stocks instead of Baytex.

Vermilion Energy Inc.'s (TSX:VET)(NYSE:VET) assets are diversified geographically with a focus in North America, Europe, and Australia. For instance, it is able to get higher gas prices in Europe than in North America. And its European gas assets are expected to generate 26% of its funds from operations.

Thanks to its global diversification, Vermilion has been able to maintain its 21.5 cents monthly dividend so far this year, while some of its peers, like Baytex, have eliminated it for now.

At $47.3 per share, Vermilion yields 5.5%. It's over 30% below its 52-week high of $68.

Whitecap Resources Inc. (TSX:WCP) produces a mix of 70% oil and 30% natural gas. Its operations are in Canada and it maintains one of the highest operating margins in its peer group. Insiders own roughly 3% of Whitecap Resources's outstanding shares. So naturally, they would want the company to do well.

Assuming an oil price of US$45, Whitecap Resources estimates its payout ratio to be 94%. The stock is over 19% below its 52-week high of $16. At $12.9 per share, Whitecap Resources yields 5.8%. Because there's no dividend reinvestment plan (DRIP) for its shareholders, its dividend is safer compared with companies that have a DRIP.

What may be of concern to investors is that Whitecap Resources has chosen the path of raising capital by equity instead of adding on too much debt. From 2014 till now, its outstanding shares have increased by 14.5%. This approach dilutes the stake of shareholders, but reduces the amount of debt the company takes on. Comparatively, Whitecap Resources has a debt-to-cap ratio of 19%, while Vermilion Energy's is 35%.

In conclusion

Both Vermilion Energy and Whitecap Resources are safer investments than Baytex Energy. Both are still paying monthly dividends, while Baytex Energy has suspended its dividend. Vermilion Energy's competitiveness lies in its global assets, while Whitecap Resources has chosen to raise capital to reduce the amount of interest paid.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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

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