2 Energy Stocks With Yields of 3-5% to Buy for Income

Description

As an income investor, I'm always on the lookout for high-quality stocks that can boost my portfolio's returns and, after a recent search of the energy sector, **Peyto Exploration & Development Corp.** (TSX:PEY) and **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) caught my eye. Let's take a closer look at each to determine which would fit best in your portfolio.

Peyto Exploration & Development Corp.

Peyto is one of the largest explorers and producers of unconventional natural gas in Alberta's Deep Basin.

It pays a monthly dividend of $0.11 per share, representing $1.32 per share on an annualized basis, which gives its stock a yield of just over 3.5% at today's levels.

As most investors know, the energy industry has been heavily impacted by lower oil and natural prices, so it's of the utmost importance to confirm the safety of an energy stock's dividend before investing, and you can do this with Peyto by checking its cash flow. In the first half of 2016, its funds from operations (FFO) totaled $242.09 million ($1.51 per share) and its dividend payments totaled just $106.26 million ($0.66 per share), resulting in a healthy 43.9% payout ratio.

Income investors can also consider Peyto a reliable dividend payer. It has paid dividends every month since July 2003 when it was organized as an energy trust, and its very strong FFO generation, including $3.59 per share in fiscal 2015 and $1.51 per share in the first half of 2016, could allow it to continue to do so for decades to come.

Vermilion Energy Inc.

Vermilion is an international oil and gas producer with operations across North America, Europe, and Australia.

It pays a monthly dividend of $0.215 per share, representing $2.58 per share on an annualized basis, and this gives its stock a bountiful 4.8% yield today.

As mentioned before, it's highly important to confirm the safety of an energy stock's dividend before investing, and you can do this with Vermilion by checking its cash flow. In the first half of 2016, its FFO totaled $220.24 million ($1.93 per share), and its dividend payments totaled just $147.51 million ($1.29 per share), resulting in a sound 67% payout ratio.

Like Peyto, Vermilion is a very reliable income provider. It has paid monthly dividends uninterrupted since September 2003 when it was organized as an energy trust, and it likes to highlight the fact that its dividend has never been cut. With this being said, I think its ample FFO generation, including $4.71 per share in fiscal 2015 and its projected $4.19 per share in fiscal 2016, could allow it to continue its streak of uninterrupted monthly dividend payments for the foreseeable future.

Is one a better buy than the other?

I think both Peyto and Vermilion represent very attractive income opportunities today, but if I had to choose just one, I'd go with Vermilion because it has a much higher yield.

CATEGORY

1. Dividend Stocks
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3. Investing

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1. Editor's Choice

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1. NYSE:VET (Vermilion Energy)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. TSX:VET (Vermilion Energy Inc.)

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