2 Energy Stocks With +5% Yields and Excellent Upside Potential

Description

If you are bullish on energy prices, you wouldn't want to miss these two yield opportunities with outstanding, double-digit price appreciation potential.

Vermilion Energy Inc. (TSX:VET)(NYSE:VET) and **Peyto Exploration & Development Corp.** (TSX:PEY) both yield more than 5%. Moreover, they have both come off double-digits from their 52-week highs. So, price appreciation in addition to the 5% yield is not out of the question.

Vermilion Energy

Vermilion Energy explores and produces oil and gas with high-netback businesses in Europe, North America, and Australia. Its global portfolio gives it commodity diversification and premium pricing, which increases the stability of its cash flows compared to its North American peers.

The company also benefits from having the choice of allocating its capital spending to the highest-return commodity products and jurisdictions, thereby, producing more reliable growth.

This year, Vermilion Energy expects its production mix to be 28% Brent oil [produced in France (17%), Australia (9%), and Germany (2%)], 16% WTI oil [produced in Canada (14%) and the U.S. (2%)], 22% Canadian natural gas and 4% natural gas liquids, and 30% European gas [produced in Ireland (15%), the Netherlands (11%), and Germany (4%)].

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Vermilion Energy has been focused on free cash flow generation while maintaining production growth. In December, with the assumption of US$50/bbl oil, Scotia Capital estimated Vermilion Energy's free cash flow yield for this year to be about 7%, taking the top spot compared to 12 other energy companies, including **Suncor**, **Crescent Point Energy**, and Peyto.

Stable cash flow generation allows for a safe dividend. Indeed, Vermilion Energy has maintained its dividend since 2003 and has hiked it three times since. Based on the company's estimates, even after deducting its exploration and development capital spending for this year, its funds from operations payout ratio comes out to be 89%. So, the company has the ability to maintain its dividend.

Across 15 analysts at **Reuters**, they have a mean 12-month price target of $59.50 per share. Based on Vermilion Energy's recent price of $48.50 per share, this implies a potential upside of 22% and about 27% total returns on the stock for the next 12 months.

Peyto

Peyto is a low-cost unconventional natural gas producer. The company estimates to produce about 120,000 boe/d in 2017, which would be about 14% higher than its 2016 production.

Peyto's shares have declined more than 20% year to date. If natural gas prices head higher, its shares could enjoy an impressive rebound. At $26 per share, Peyto offers an attractive 5% yield.

Across 16 analysts at Reuters, they have a mean 12-month price target of $35.80 per share. This implies a potential upside of 37% and about 42% total returns on the stock for the next 12 months.

Investor takeaway

If you're bullish on energy prices, Vermilion and Peyto are good names to consider while you get a nice yield. However, keep in mind that if commodity prices go down and stay low for an extended period, these companies could end up cutting their dividends and their shares could go much lower from here. So, don't bet the farm on them.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:PEY (Peyto Exploration & Development Corp)
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