Oil Prices Fall: Is it Time to Scoop Up These 2 Energy Stocks on the Dip?

Description

With oil prices falling nearly 5% on Thursday, shares of energy companies tumbled. Some shares fell as much as 6%, while the midpoint decline was 3-4%.

Shares of **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) fell about 1% and 3%, respectively. Their dividend yields have been nudged higher thanks to the dip. Is it time to buy some shares?

Enbridge

After merging with Spectra Energy, Enbridge's scale, diversity, and leading position in the energy infrastructure space is the strongest it has ever been.

Enbridge has 96% of cash flow underpinned by long-term contracts, it has less than 5% of earnings before interest, taxes, depreciation, and amortization that are exposed to commodity prices, and it has 93% of revenue coming from investment-grade customers. As a result, Enbridge's earnings and cash flows are pretty stable and reliable.

Enbridge has already increased its dividend per share for 21 consecutive years. With about $74 billion of potential projects in Enbridge's pipeline, management believes it can deliver annual dividend-per-share growth of 10-12% from 2018 to 2024 with a payout ratio of 50-60% of available cash flow from operations.

A seven-year projection is longer than what most other management would give, indicating management's confidence in the future of the company.

Thanks to the dip, Enbridge now offers a lifted yield of 4.6% for starters. This is attractive for the company's stable, growing profile.

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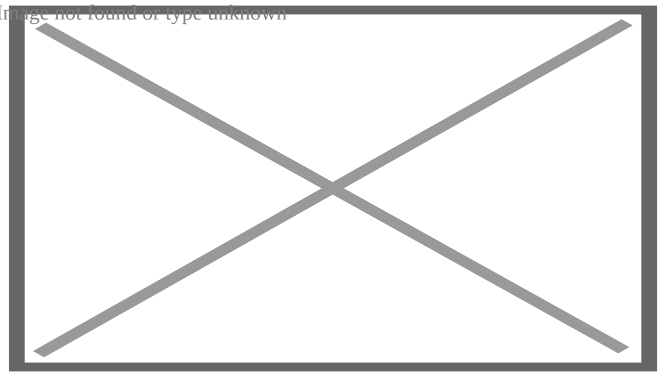

Vermilion Energy

Vermilion Energy is more susceptible to the changes in commodity prices. Its share price fell more than 3% (compared to Enbridge's nearly 1%).

So, it makes sense to consider Vermilion Energy shares when they offer a high yield to compensate for its increased volatility. Some investors may accept a yield of more than 5%. Others may require a yield of at least 6%. After Thursday's dip, Vermilion Energy now trades at about $43.50 per share and offers a yield of 5.9%.

This year, Vermilion Energy expects Brent oil and WTI oil to contribute 37% and 24%, respectively, to its funds from operations (FFO). Although the prices for both Brent and WTI fell, Brent still trades at a premium to WTI.

Similarly, European natural gas tends to trade at a premium to Canadian gas. The company expects European gas to contribute 31% of its FFO this year.

Management has shown its commitment to paying the monthly dividend, as it has maintained the dividend and even increased it three times since 2003.

Investor takeaway

The dips offer a buying opportunity in Enbridge and Vermilion Energy. Investors can expect a smoother ride in an investment in Enbridge.

For Vermilion Energy's higher volatility and perceived risk, investors are compensated with a higher yield and higher price appreciation potential.

Specifically, analysts' consensus 12-month target indicates there's nearly 20% upside for Enbridge and about 35% upside for Vermilion Energy.

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