2 Energy Stocks I Bought Recently for Different Reasons

Description

I bought shares of **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) recently for different reasons.

Vermilion Energy

Vermilion Energy offers an above-average yield, which is uncommon in the energy space. It's a lower-risk investment because it has high-netback businesses diversified geographically in Europe, North America, and Australia.

It enjoys premium pricing from Brent Oil and European natural gas, which management forecasts to account for 57% of its production mix and 67% of its funds from operations (FFO) for this year. The remaining production and FFO will come from WTI Oil, Canadian natural gas, and natural gas liquids.

Vermilion Energy is also committed to its dividend. The company has maintained the dividend and increased it three times since 2003.

One thing that investors may not like about Vermilion Energy is that its production-per-share growth is estimated to be 6% this year and next year. There are better choices for higher production growth from small oil and gas producers, which will benefit more when the prices of the underlying commodities head higher.

And because of Vermilion Energy's international exposure and above-average stable business, it tends to trade at a premium to its peers. However, if we compare its price-to-cash flow valuations since 2013, the oil and gas producer trades at a discount. So, I bought some shares of the company.

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Enbridge

Enbridge is a leading energy infrastructure company with most of its operations in North America. It has a large capacity to process and store natural gas and transports gas and liquids through its network of North American pipelines. Moreover, its distributes gas to 3.5 million retail customers and has the net capacity to generate 2,200 MW of renewable energy.

Enbridge's cash flow generation is largely contracted with investment-grade customers. These cash flows have little direct exposure to commodity price fluctuations.

With a payout ratio of about 60% this year, $28 billion of near-term projects, and $48 billion of future projects to boost growth, Enbridge believes it can grow its dividend by 10-12% per share through 2024.

Enbridge shares have been pressured lately, which has partly to do with Enbridge buying a troubled natural gas gathering and processing business from its subsidiary **Enbridge Energy Partners, L.P.** for $2.15 billion in May to strengthen Enbridge Energy Partners's balance sheet. This is a negative to Enbridge, but it shouldn't affect its long-term investing prospects.

Investor takeaway

I intend to follow the "buy low and sell high" adage for Vermilion Energy. I get an above-average yield of 5.7%, while I wait for the shares to appreciate. **Thomson Reuters** has a mean 12-month price target of $58.80 on the stock currently, which represents an upside potential of nearly 30%.

Enbridge is a relatively low-risk investment in the energy space that should do well as a long-term dividend-growth investment.

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