2 Energy Stocks With Remarkable Yields

Description

The share prices of energy stocks are more or less affected by the volatility of the underlying commodity prices. So, to invest in the sector with reduced risk, investors can invest in ones that pay safe dividends.

Lower commodity prices have helped push the share prices of **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) and **Inter Pipeline Ltd.** (TSX:IPL) lower and nudged their yields higher to remarkable heights of about 6.3%.

Let's have a look at the underlying businesses that support their juicy yields.

Vermilion Energy

Vermilion Energy is a mid-cap oil and gas producer whose high netback business has a diversified commodity mix and is spread geographically.

The company generates 36% of its funds from operations from Brent oil (23% from France, 1% from Germany, and 12% from Australia), 31% from European gas (3% from Germany, 18% from Ireland, and 10% from Netherlands), 24% from WTI oil (23% from Canada and 1% from the United States), and 7% from Canadian natural gas.

Vermilion Energy typically benefits from premium pricing in Brent oil (versus WTI oil) and European gas (versus Canadian gas). According to Scotia Capital, compared to 29 peers, big and small, Vermilion Energy has the lowest-sustaining capital-reinvestment breakeven WTI price of below US$15 per barrel!

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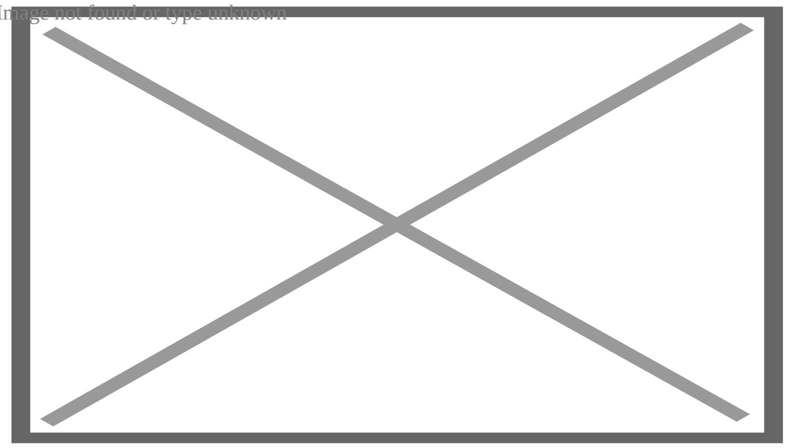

Part of the reason for this is because of Vermilion Energy’s ongoing efforts to improve efficiency and reduce costs. With the WTI price sitting at about US$45 per barrel, Vermilion Energy is one of the safest energy stocks to invest in.

Furthermore, Vermilion Energy offers a generous dividend which yields a whopping 6.3% at about $41 per share. If you account for Vermilion Energy’s dividend, the business requires a WTI price of US$40 per barrel to break even.

In fact, after adding in the “dividend safety criterion,” 24 peers fail to break even at US$40 per barrel. The average breakeven price for the 30 companies is about US$48 per barrel.

Inter Pipeline

Inter Pipeline shares have also pulled back due to lower commodity prices. Unlike Vermilion Energy, though, Inter Pipeline has much less exposure to commodity price volatility.

Only about 25% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) are commodity based, and 75% are based on long-term contracts that are more stable.

Inter Pipeline is largely involved in oil sands transportation (49% of EBITDA), followed by natural gas liquids processing (26%), conventional oil pipelines (17%), and bulk liquid storage (8%).

At about $25.50 per share, Inter Pipeline offers a yield of nearly 6.4%. The company has increased its dividend every year since 2009, and it should continue its dividend-growth streak in the future.

Which should you buy for a ~6.3% yield?

Vermilion Energy shares will be more volatile. It is highly leveraged to the underlying commodity prices and so will experience stronger upside if they were to rise. If you want a smoother ride, Inter Pipeline is the one to choose.

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Date
2025/07/20
Date Created
2017/06/30
Author
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