2 Energy Stocks With Remarkable Returns Potential

Description

Energy stocks have underperformed the market in the last few years for those who'd invested at too high a price. But **Whitecap Resources Inc.** (TSX:WCP) and **Enerplus Corp.** (TSX:ERF)(NYSE:ERF) have adjusted well for the new normal of lower energy prices.

Let's see if they're the kind of energy business you'd like to own.

Whitecap Resources

Whitecap Resources is a Canadian oil-weighted producer with a production mix of about 82% oil and 18% natural gas liquids. This year, the company aims to produce 57,000 barrels of oil equivalent per day (boe/d), and it expects to ramp up production to 62,000 boe/d and 67,000 boe/d in 2018 and 2019, respectively.

Based on its funds flow estimations, Whitecap forecasts growth from $1.44 per share in 2017 to $2.24 per share in 2019. However, that's based on the assumption that the WTI oil price will recover to US$60 in 2018 and US$65 in 2019, which seems optimistic.

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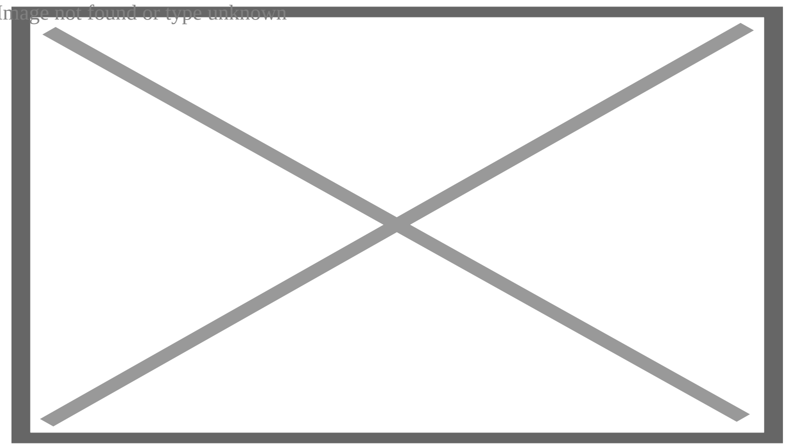

That said, it's unlikely that Whitecap Resources will cut its dividend again, like it did last year, because its payout ratio is currently more sustainable at 75%. This ratio accounts for both its dividend and capital spending.

In fact, Whitecap Resources has a sustaining capital-reinvestment breakeven WTI price of under US$35 per barrel. Accounting for its dividend, the energy company requires a WTI price of just over US$40 per barrel to break even.

At about $9.30 per share, Whitecap Resources offers a yield of 3% and 12-month upside potential of 46% based on **Thomson Reuters's** mean target of $13.60 per share. This equates to a total return of 50% in the near term.

Enerplus

Enerplus is a North American oil and gas producer which was established in 1986. This year, the company aims to produce 81,000-85,000 boe/d, and it expects its production to grow by about 10% per year through 2019.

Enerplus has a strong financial position compared to its peers. Its debt-to-cash flow ratio is estimated to be 0.8 times this year, which takes the fifth place among 38 peers. Its capital spending and its dividend are fully funded from its cash flow.

Enerplus has a sustaining capital-reinvestment breakeven WTI price of about US$35 per barrel. Accounting for its dividend, the energy company requires a WTI price of roughly US$38 per barrel to break even.

At about $10.50 per share, Enerplus offers a yield of 1.1% and 12-month upside potential of 47% based on Thomson Reuters's mean target of $15.50 per share. This equates to a total return of 48% in the near term.

Investor takeaway

If you believe energy prices will recover, Whitecap Resources and Enerplus are good considerations for double-digit returns potential with sustainable dividends. Notably, Enerplus has a particularly strong financial position among its peers.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)
3. TSX:WCP (Whitecap Resources Inc.)

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kayng