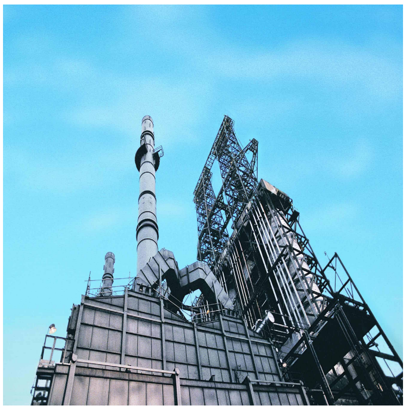

2 High-Yield Energy Stocks With Double-Digit Upside Potential

Description

These stocks show that you can have dividends and price appreciation from your energy investments. The truth is, their shares have pulled back meaningfully. As a result, their yields have been pushed to compelling levels.

Specifically, year to date, **Inter Pipeline Ltd.** (TSX:IPL) shares have declined roughly 16%, whereas **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) shares have fallen about ~30%. So, their yields now hover around 6.5%!

Business overview

Inter Pipeline is an integrated energy infrastructure company which has operations in oil sands transportation (which contributes 49% of its earnings before interest, taxes, depreciation, and amortization [EBITDA]), natural gas liquids processing (26%), conventional oil pipelines (17%), and bulk liquid storage (8%).

Vermilion Energy is an international oil and gas producer with operations in North America, Europe, and Australia. Its global portfolio provides commodity diversification, and so the company tends to enjoy premium pricing.

This year, Vermilion Energy estimates Brent oil and European gas to contribute 35% and 34%, respectively, to its funds flow from operations. These commodities tend to trade at a premium to their North American counterparts.

Dividend safety

One can never say that dividends from energy companies are 100% safe because of the volatility of the underlying commodity prices that the companies cannot control. However, the management at Inter Pipeline and Vermilion Energy have shown a strong commitment to their dividends.

Inter Pipeline has increased its dividend for eight consecutive years. Its three-year dividend-growth rate is 10.1%, and its last hike was 3.8%.

Vermilion Energy has maintained its dividend and increased it three times since 2003. The company can sustain its operations and cover its dividend if the WTI oil price stays above US$40 per barrel, and it's currently hovering above US$46 per barrel.

Between the two, Inter Pipeline has a safer dividend; the company estimates it will generate 75% of its EBITDA from cost-of-service or fee-based contracts this year.

Expected total returns

The recent reports by **Thomson Reuters** have mean 12-month targets of $30.80 per share on Inter Pipeline and $52.90 per share on Vermilion Energy, which imply upside potential of nearly 24% and 34%, respectively.

Summing that up with the ~6.5% yields they offer, Inter Pipeline and Vermilion Energy can deliver outstanding returns of ~30% and ~40% in the near term.

Investor takeaway

Both companies are pretty committed to paying their dividends. There's no doubt that Inter Pipeline is a safer investment; it offers a safer dividend and will be a smoother ride. An investment in Vermilion Energy will be a bumpier ride, but it can deliver higher returns.

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