2 Energy Stocks With Big Dividends and Colossal Upside

Description

If the Bank of Canada hikes the overnight rate target, it will increase the borrowing costs of businesses. That said, companies with low debt levels can more easily adapt to a rising interest rate environment.

With flexible balance sheets, and especially if energy prices improve, the following energy stocks will have amazing upside. One even offers a +10% dividend yield.

Let's explore these energy stocks and determine if they can maintain their dividends.

Torc Oil and Gas Ltd. (TSX:TOG) focuses on light-oil assets with sustainable growth. The Canadian Pension Plan Investment Board and insiders of the company own 25% and 4%, respectively, of Torc, which gives the company a strong vote of confidence.

Moreover, Torc has a strong balance sheet and a debt/cap of ~12%. Assuming a WTI oil price of US$45, management expects a total payout ratio of 95% — that is the payout ratio after accounting for maintenance and growth, capital spending, and the dividend. This equates to a net debt/cash flow of 1.6 times, which implies Torc has a stronger financial position than its peers.

At the end of the second quarter, Torc had $242 million of net debt, while it had $400 million of bank facility, of which 51% was undrawn.

At $5.26 per share, Torc offers a yield of ~4.5% and upside potential of 61% in the next 12 months according to the mean target from **Thomson Reuters**.

Cardinal Energy Ltd. (TSX:CJ) is an oil-focused producer. Cardinal has a debt/cap of ~25%. In June, the company raised gross proceeds of ~$170 million via an equity offering at essentially $5.50 per share for a light oil acquisition of $297 million.

Cardinal increased its credit facilities to $325 million in to raise the remaining funds needed for the acquisition. At the end of the second quarter, Cardinal had $233 million of bank debt. The producer plans to repay some of that by selling some royalty interests and fee title lands.

Assuming a WTI oil price of US$47.50, management expects its adjusted funds flow to reduce in the second half of the year. To ensure its total payout ratio is less than 100%, management has decided to reduce its capital spending by $8 million. This sounds like management is willing to pare down some growth to keep the dividend safe.

At $4.04 per share, Cardinal trades at a 26% discount to its recent equity offering, offers a yield of +10%, and, according to Reuters, has upside potential of 72% in the next 12 months.

Investor takeaway

Between the two oil-weighted producers, Torc will fare better as interest rates rise because it has a stronger balance sheet. Moreover, Torc can maintain a total payout ratio of less than 100% in a US$45 WTI environment. That said, Cardinal management seems committed to maintaining its dividend.

Both companies should do fine if we get US$50 WTI. With the WTI oil price hovering at ~US$48.50 per barrel, though, it'd be a safer investment to go with Torc and get a lower yield of ~4.5%.

More speculative accounts can consider a smaller position in Cardinal. For both companies, don't expect a huge comeback soon, but be ready to hold for the next three to five years.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/10
Date Created
2017/08/21
Author
kayng