



2 Energy Stocks With +6% Yields and Tremendous Upside

Description

It helps to reduce your risk and boost your returns greatly if you buy energy stocks that are directly related to energy prices after they have experienced substantial pullbacks.

Peyto Exploration & Development Corp. ([TSX:PEY](#)) and **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) stocks have declined ~46% and ~28% from their 52-week highs, respectively, which are pretty significant pullbacks.

If you believe energy prices will head higher in the future, Peyto and Vermilion are good investment ideas with tremendous upside potential. Moreover, they offer yields of ~6.4% and ~6.2%, respectively.

Peyto

Peyto is a low-cost natural gas-weighted producer. Notably, its return on equity has been positive (between 7% and 41%) every year since 2007. And when comparing it to five other similar-sized peers and two large-cap energy companies, none have achieved that feat.

In the same period, Peyto has maintained a reasonable financial leverage of 1.7-2.3. Its financial leverage currently sits at ~2.2.

Peyto has at least maintained its dividend per share since 2011 and has increased it by ~83% after a few hikes. This shows just how well Peyto management allocates its capital as well as being shareholder friendly.



After the significant pullback, the shares offer a yield of ~6.4%, and if energy prices — particularly, natural gas prices — head higher, the stock will do very well.

In fact, the Street consensus at **Thomson Reuters** has a 12-month mean price target of \$29.10 on the stock, which represents 41% upside potential from the recent share price of ~\$20.60. Combined with its dividend, that represents ~47% of near-term total returns potential.

Vermilion

Vermilion has maintained a strong dividend. It has at least maintained its dividend per share since 2003 and increased it by ~26% since then.

Notably, Vermilion is diversified as it has international operations; it enjoys premium pricing from its Brent oil and European gas. So, the stock tends to trade at a premium to its peers.

The company estimates it will produce 27% of Brent oil and 30% of European gas for this year's production mix. The Brent oil and European gas production should generate roughly 70% (35% each) of its funds flow from operations this year.

After a meaningful pullback, the shares offer a yield of ~6.2%, and if energy prices move higher, the stock will do well. The Street consensus at Reuters has a 12-month mean price target of \$51.10 on the stock, which represents 23.5% upside potential from the recent share price of ~\$41.30. Combined with its dividend, nearly 30% of near-term total returns are possible.

Investor takeaway

If you're more bullish on natural gas than oil, consider scaling in to Peyto. If you like a balanced mix of oil and gas, consider Vermilion.

If the underlying commodity prices go higher, you will pocket some handsome gains. Additionally, both stocks offer big yields of +6% which have been sustained for at least five years.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:PEY (Peyto Exploration & Development Corp)
3. TSX:VET (Vermilion Energy Inc.)

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