It’s Time to Buy Low Now in These 2 High-Yield Stocks

Description

Energy-related stocks **Peyto Exploration & Development Corp.** (TSX:PEY) and **Inter Pipeline Ltd.** (TSX:IPL) have dipped meaningfully. It more or less had to do with the volatility of the underlying commodity prices. Both stocks are trading much closer to their 52-week lows than their 52-week highs.

This gives investors an opportunity to buy these shares at high yields. Peyto and Inter Pipeline offer yields of nearly 6% and 6.7%, respectively. Because their share prices have above-average volatility, investors should consider selling them when their yields become less attractive — in other words, when the yields are too low to be worth your risking your capital.

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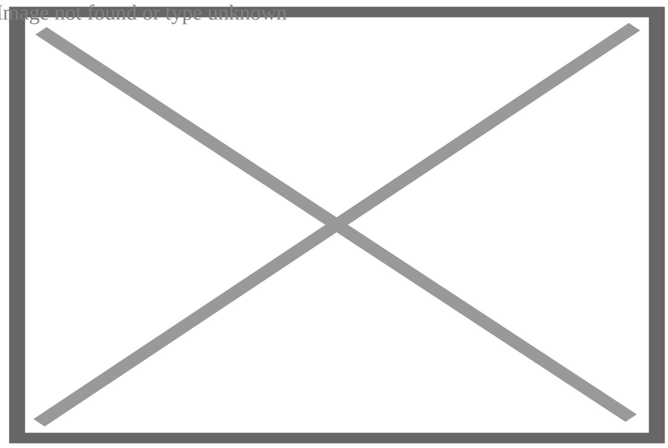

Peyto

Peyto is a low-cost natural gas-weighted producer, which has generated positive returns on equity every single year since 2007.

Few of its peers have achieved that feat, which indicates how carefully the management allocates its capital. Management is proud of having paid cumulative dividends no more than its cumulative earnings.

What's even more impressive is that the company has maintained a reasonable financial leverage range of 1.7-2.3 in that period. As well, its shareholders have enjoyed its rising dividend per share, which has increased ~83% since 2011.

This is the second time in Peyto's history of paying dividends that it yielded close to 6%. So, it's a good opportunity to pick up some shares. When the shares yield less than 4.5%, it would be a good time to consider getting out of the stock, because investors can find safer stocks with that kind of yield.

A 4.5% yield based on its monthly dividend per share implies a target price of $29.33, or upside of roughly 32%.

Can the stock get there?

The Street consensus from **Thomson Reuters** thinks Peyto shares can reach $29.10 in the next 12 months. And based on the stock's long-term normal operating cash flow multiple, if we see an up cycle, the stock can trade above $36 for upside of about 62%!

Inter Pipeline

Inter Pipeline has a diversified set of energy infrastructure assets for transporting oil sands and other oil products, natural gas liquids processing, and storing bulk liquids. So, some investors consider it to be a safer investment than Peyto.

Many income investors hold Inter Pipeline for its safe yield, which currently sits at about 6.7%, in their long-term portfolios. Others can consider it as a relatively safe trading candidate; for example, they could aim to sell it at a 4.5% yield, which indicates a target price of $36, or upside of about 48%.

The Street consensus from Reuters has a more conservative 12-month target of $29.30 per share, which implies upside of nearly 21%.

Investor takeaway

Peyto and Inter Pipeline are great for income and double-digit upside potential in the next 12 months. Between the two, Inter Pipeline is a safer long-term investment.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:PEY (Peyto Exploration & Development Corp)

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