



## 2 Energy Stocks for Strong Upside

### Description

Energy stocks have generally appreciated in the last month. Other than investing in energy exchange-traded funds, one of the safer ways to gain exposure to the energy rally is by investing in [energy giants](#). However, if you're looking for more upside should the underlying commodity prices go higher, you should explore mid-cap or even well-run small-cap companies.

**Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) is a mid-cap oil and gas producer. The advantage Vermilion Energy has over its North American peers is that it has international operations, which enjoy premium pricing.

This year Vermilion Energy estimates that ~54% of its production and ~68% of its funds from operations will come from outside North America (i.e., from Europe and Australia). The premium pricing of European gas and Brent oil will boost Vermilion Energy's free cash flow generation. Management estimates that the company will generate ~81% of its free cash flow from these regions.

Vermilion Energy guides to produce 75,000-77,500 barrels of oil equivalent per day and has capital spending of \$325 million this year, which should result in production-per-share growth of ~8% (based on the midpoint of the guidance range).

The analysts from **Thomson Reuters** are pretty positive on Vermilion Energy stock and has a 12-month mean price target of \$52.60 per share on the stock. This represents ~22% upside potential from the recent quotation of ~\$43 per share. Moreover, the company will be increasing its April dividend by nearly 7%, which will be paid in May. This implies a forward yield of ~6.4%.

**Spartan Energy Corp.** (TSX:SPE) is a small oil-weighted producer (~91% oil). Small companies are typically viewed as riskier than their bigger counterparts. However, Spartan Energy is well managed and focused on generating free cash flow. So, the stock has more upside than its bigger peers if oil prices move higher.

The 16 Reuters analysts are very bullish on the stock with only “strong buy” and “buy” ratings. They have a mean 12-month target of \$9.70 per share on Spartan Energy, which represents almost 57% upside potential from the recent quotation of ~\$6.20 per share.

### The takeaway for investors

[Smaller-sized energy stocks](#) such as Vermilion Energy and Spartan Energy can lead to strong upside when you buy at the lows and sell at the highs. However, they’re also more volatile than the average stock. Investors should decide if they can stomach the volatility before investing.

Between the two, Vermilion Energy should be easier to hold on to, as it offers a dividend yield of +6%. That said, Spartan Energy should do fine because it’s well run and has a good balance sheet. Its recent debt-to-asset ratio was ~0.18, and its recent cash-flow-to-debt ratio was ~0.36.

### CATEGORY

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

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1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)

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