There's More Upside for These 2 Energy Stocks

Description

Oil prices have been in an upward trend in the last year. The WTI oil price is just under US$70 per barrel. Here are some energy stocks that will benefit from higher oil prices.

While the WTI oil price has appreciated from US$48 to nearly US$70 per barrel, **Cardinal Energy Ltd.** (TSX:CJ) stock is still trading at near its multi-year lows. So, there's lots of upside for the stock.

Cardinal Energy is a junior oil-weighted producer with a focus on light- and medium-quality oil in Alberta and Saskatchewan. The company estimates its average production this year will be 21,000-21,500 barrels of oil equivalent per day. It expects about 46% of the production will be light oil and natural gas liquids, 41% will be WCS medium quality oil, and 13% natural gas.

Management anticipates that Cardinal Energy will increase its free cash flow throughout the year due to a combination of improved realized pricing on hedges, the increase in the WTI oil price, the reduction of the WCS differential, and lower spending.

The analyst consensus from **Thomson Reuters Corp.** has a 12-month target of $6.63 per share on Cardinal Energy, which represents upside potential of nearly 21% in the near term from the recent quotation of $5.49 per share. Longer term, the stock can reach about $9 per share for +60% upside.

Cardinal Energy offers an eligible monthly dividend, an annualized dividend of $0.42 per share, which equates to a yield of about 7.6%. The dividend is supported by its cash flow. Its payout ratio was about 38% of its operating cash flow and about 56% of its funds flow in the first quarter.

Vermilion Energy Inc. (TSX:VET)(NYSE:VET) is an internationally diversified mid-cap oil and gas producer.

It operates in Canada, France, Ireland, the Netherlands, Australia, Germany, and the United States. Its key cash flow generators are WTI oil (about 34% of 2018 funds from operations), Brent oil (about 29%), and European gas (37%). Vermilion enjoys premium pricing for Brent oil and European gas.

Vermilion got good value for its recent acquisition of Spartan Energy, which has helped boost its production and free cash flow guidance. Desjardins Securities estimates that Vermilion will have the highest free cash flow yield in 2019 compared to 20 other peers.

Vermilion is well managed. Despite volatile commodity prices, Vermilion has maintained or increased its dividend per share since 2003. It recently hiked its monthly dividend and currently offers a safe yield of about 5.8% at roughly $47.40 per share.

The analyst consensus from Reuters has a 12-month target of $55.70 per share on Vermilion, which represents upside potential of nearly 18% in the near term. Longer term, the stock can reach the $60-per-share level for +26% upside. If the stock drops to the low $40s, it will be a great buy.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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2. TSX:CJ (Cardinal Energy Ltd.)
3. TSX:VET (Vermilion Energy Inc.)

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