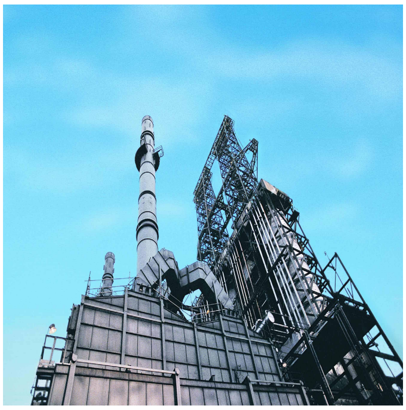

2 Oil-Weighted Energy Stocks That Could Soar on Supply Issues

Description

Oil-weighted energy stocks are not for the fainthearted this year. From trade war worries to OPEC, from the closure of the Red Sea oil route to fears of unrest in the Strait of Hormuz, anything oil related seems to be off the table for risk-averse investors.

However, oil prices are subject to sudden spikes. Look at the bottleneck in Venezuela and the drop in Saudi output. Every time supply lines get pinched, the oil price surges. This makes oil-weighted stocks fairly accurate indicators of both the health of the global economy (via demand) and of localized unrest (via supply).

Vermilion Energy (TSX:VET)(NYSE:VET)

Vermilion is, hands-down, one of the best dividend-paying energy stocks on the TSX with heavy exposure to oil. However, its valuation leaves something to be desired at the time of writing: it's overvalued by 37% compared to its future cash flow value for starters. And as a loss-making stock, we'll have to look beyond Vermilion's P/E and PEG ratios for indicators of value.

A P/B ratio of 2.5 times book is higher than the Canadian oil and gas industry average, though growth investors may want to weigh this up against Vermilion's huge 74.3% expected annual growth in earnings.

Growth investors have a lot to think about here, but perhaps the real draw is that hefty dividend yield of 6.34%.

Looking at Vermilion's share price over the past year, the trend shows little upward or downward momentum, counting this stock out as a contender for capital gains investors.

Parex Resources Inc. (TSX:PXT)

Discounted by 31% compared to its future cash flow value, Parex has to be one of the most desirable stocks on the TSX right now. It's got great value multiples, too: a P/E ratio of 14.8 times earnings and a PEG ratio of 0.4 times growth.

On the down side, a P/B of 2.9 times book is poor asset-focused value at the moment for an energy stock on the TSX index. However, take into context its other excellent valuation indicators: 37.3% expected annual growth in earnings and total lack of debt. All told, this is a very attractive stock at the moment.

Parex had a return on equity of 19% last year, which is not a significantly efficient use of shareholders' funds, but still beats a loss-making competitor like Vermilion. Its price is on an upward trend, with a recent dip creating a value opportunity for mid-term momentum investors.

The bottom line

A company's ROE is a particularly good metric to use when looking at energy stocks, especially ones that are weighted heavily by oil. Looking at stocks like Vermilion and Parex that are buoyed or sunk by fluctuations in oil prices, knowing how much profit they generate with shareholders' equity is key.

Investors need to weigh up price trends if they're looking for capital gains rather than dividends. The two stocks here therefore represent very different investment strategies, with Parex being the momentum investors' pick, and Vermilion being the clear choice for passive-income investors. Keep your eyes on the news and be ready to pounce next time oil supplies get reduced.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:PXT (PAREX RESOURCES INC)
3. TSX:VET (Vermilion Energy Inc.)

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