



Top Energy Picks for Monthly Income and Upside

Description

Investors are often forced to choose between healthy yields and strong capital appreciation, but that's perhaps not so with the three energy stocks below. Let's take a look at each of them and dig into where their prices are headed in the next 12 months.

Peyto Exploration & Development ([TSX:PEY](#))

The first thing that stands out about Peyto is its hefty yield of roughly 6.9%, with monthly distributions of \$0.06 per share. Cut from \$0.11 per month going into 2018, the company's current dividend rate is sustainable in the current commodity price environment.

Peyto's [low operating costs](#) and commodity hedging strategies enable it to deliver profits, even while other oil and gas companies tread water. That being said, it is important to note that the company is 90% weighted toward natural gas, and thus it is more sensitive to fluctuations in the price of natural gas than many of its peers.

Shares of Peyto have been under pressure year to date, declining by more than 30%. Currently, the company trades approximately 5% above its 52-week low. With a price-to-earnings multiple of around 10 and a price-to-book ratio of about one, Peyto is fairly inexpensive at the moment.

Whitecap Resources ([TSX:WCP](#))

While Whitecap has struggled with profitability following the oil slump, it has succeeded in growing revenue at a five-year average annual rate in excess of 25%. The company has also done a good job of preserving book value during its period of weakness, losing just a little more than a dollar per share since 2014.

Unlike Peyto, Whitecap is 85% weighted toward oil and NGLs and only derives about 3% of revenues from natural gas. The company prides itself on having high netbacks and lower decline rates than the majority of its peers.

Whitecap cut its dividend twice in 2016, but it has since been rebuilding it; with one increase in 2017

and one increase this year, the company now yields about 3.7% on monthly distributions of \$0.027. In terms of value, Whitecap trades at a forward price-to-earnings multiple of close to 20 and a price-to-book ratio of around 1.1.

Vermilion Energy ([TSX:VET](#))([NYSE:VET](#))

Like Peyto, Vermilion's sizable dividend is one of its standout features; monthly distributions of \$0.23 give the stock a yield of the order of 6.6%. The company last increased its payout in April by around 7%, another \$0.015 per month.

In May, Vermilion completed its [\\$1.4 billion acquisition of light oil producer Spartan Energy](#), adding capacity of as much as 23,000 barrels of oil equivalent per day.

For the second quarter ended June 30, Vermilion ran a loss that can be largely attributed to its currency and commodity hedging instruments. Consequently, the company's shares currently trade about 6% above their 52-week low.

While there are a lot of things to like about Vermilion, investors should be aware that it is a bit pricey relative to its peers, trading at a forward price-to-earnings multiple of roughly 27 and a price-to-book ratio of around 2.4.

Price targets

Of the group, Whitecap is the most loved by analysts and has a consensus price target in the neighbourhood of \$13.40, representing more than 50% upside. Set by National Bank Financial, the high price target of \$16 would mean a jaw-dropping return in excess of 80%.

Next up is Peyto with a consensus price target of around \$14.85, which translates into potential upside of over 40%. The high price target of \$18, as set by **Canaccord Genuity**, suggests that the share price may increase by upwards of 70%.

Finally, Vermilion's 12-month price target of a little more than \$58 is no slouch, implying gains of close to 40%. If CSFB's high price target of \$65 is to be believed, then Vermilion's share price could grow by more than 50% in the next year.

Conclusion

Getting paid to wait has never looked so good; these three energy companies will pay you monthly while you watch them grow!

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

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

4. TSX:WCP (Whitecap Resources Inc.)

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