



Here Are 2 Ideas for Income and Double-Digit Upside

Description

Investors aim to buy dividend stocks low for a high initial yield. Here are two relatively safe energy stock ideas that fit that line of thought. They're quality oil and gas stocks that are trading at near their 52-week lows and offer yields of 4-7%.

TORC Oil and Gas

TORC is a light oil-weighted producer that's supported by the Canada Pension Plan Investment Board, which has about 28% ownership in the company. TORC insider ownership of about 4% is also meaningful.

Management estimates an average production of 25,100 barrels of oil equivalent per day (boe/d) and an exit production of 28,000 boe/d this year.

TORC is conservatively run and has a relatively [strong balance sheet](#) compared to its peers. The WTI oil price is about US\$70 per barrel. However, even with a WTI oil price of \$55, TORC's net debt to cash flow would be 1.5 times, and its payout ratio would be 83%.

Assuming a WTI oil price of \$65, TORC's net debt to cash flow would improve to 1.1 times, and its payout ratio would improve to 62%. TORC offers a sustainable yield of 4.4% at the recent quotation.

At \$5.97 per share as of writing, TORC trades at about 4.3 times its cash flow, which is a low valuation that was last seen in 2015. The analyst consensus from **Thomson Reuters** has a 12-month target of \$10.10 per share on the stock, which represents 69% near-term upside potential.



Vermilion Energy

At \$39.57 per share as of writing, Vermilion trades at about 6.5 times its cash flow, which is a low valuation that was last seen in 2009. Vermilion tends to trade at a premium to its peers because of its access to premium commodity pricing.

Vermilion recently acquired Spartan Energy at a good valuation. The combined portfolio has a production mix of about 23% European gas and 20% Brent oil, which both enjoy premium pricing, and 27% WTI oil, 23% Canadian gas, and 7% natural gas liquids. It estimates to generate about 62% of its free cash flow from Brent oil and European gas.

The analyst consensus from Reuters has a 12-month target of \$56 per share on the stock, which represents 41% near-term upside potential.

Vermilion has maintained or increased its dividend per share since 2003. Since 2007, it has increased its dividend by 35%. With the recent dip, the stock offers an attractive yield of close to 7%!

Vermilion's net-debt-to-funds-from-operations ratio is estimated to be about 1.9 this year, but the ratio is projected to improve quickly to about 1.3 based on management's Q4 estimates on an annualized basis.

Investor takeaway

With a stabilized WTI oil price of +US\$50 per barrel but closer to US\$70 right now, [energy companies](#) such as TORC and Vermilion are set to produce higher cash flows that should lead to double-digit price appreciation. In the meantime, investors can get yields of about 4.4% and 7%, respectively, while they wait for the gains to materialize.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VET (Vermilion Energy)
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