



## 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

## TICKERS GLOBAL

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

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

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