

These 2 Energy Stocks Offer Amazingly High Returns Potential

Description

Some experts prefer **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) over **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#)). Points to highlight include that Baytex stock has [more upside potential](#) and trades at a much cheaper multiple. However, investors should ask themselves which they're more comfortable holding — maybe it's one over the other, a mix of both, or none at all.

The WTI oil price fell about 26% from US\$76 to US\$56 per barrel in a little more than a month. Vermilion's big dividend may have lessened the blow on its stock price compared to Baytex, which doesn't pay a dividend. In the period, Vermilion stock corrected about 24%, while Baytex stock fell about 34%.

With the slide in the oil price in such a short time, the market is probably expecting some sort of relief rally. As of now, the upward trend that began in the WTI's 2016 bottom is still intact. However, no one will guarantee that the trend won't be broken.

That's why, despite that these [energy stocks offer lucrative upside potential](#) (triple digit for Baytex), investors aren't flocking to them. No one knows when oil prices will cooperate!



The case to buy Vermilion

At \$33.11 as of writing, Vermilion offers a yield of 8.34% that's quite attractive. In the first nine months of 2018, its payout ratio was 46% based on the percentage of fund flows from operations it used for its declared dividends.

As you'll see, Vermilion trades at a premium to Baytex. Specifically, Vermilion trades at about 5.4 times cash flow. Vermilion's premium valuation comes from the fact that it's a dividend payer that offers immediate returns in the form of monthly dividends to its shareholders — no matter what the stock price does. It has paid a growing dividend since 2003.

The second reason for its premium valuation is that Vermilion enjoys premium pricing for about 37% of

its production, which is in Brent oil and European gas.

The analyst consensus from **Thomson Reuters** currently has a 12-month target of \$52.30 per share for Vermilion, which represents 58% near-term upside potential or near-term total returns of 66%.

The case to buy Baytex

Pundit Eric Nuttall recently stated on *BNN* that Baytex was currently his largest position and that the company's cash flow will enable it to buy back all its outstanding shares in four years.

There are two key messages in there: Baytex is very cheap and it's generating lots of cash flow.

At \$2.60 per share as of writing, Baytex trades at about 1.7 times cash flow. In the first nine months of this year, Baytex generated \$362 million of adjusted funds flow (or \$1.28 per share).

The analyst consensus from Reuters currently has a 12-month target of \$5.68 per share for Baytex, which represents 118% near-term upside potential.

Investor takeaway

Although the upside potential of these energy stocks is mesmerizing, no one knows when oil prices will cooperate. That's why some investors choose Vermilion over Baytex, as they'll get income while they wait for the stock price to appreciate, which requires lots of patience. Investors should decide if these volatile energy stocks are suitable for their own risk tolerance.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. NYSE:VET (Vermilion Energy)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

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