2018 Losers That Are Absolutely Attractive for 2019

Description

Just because a stock is down, it doesn’t mean it’s out of the game. In fact, I think the following losers of 2018 are great ideas for 2019 and beyond.

Vermilion Energy

Oil and gas prices have been horrible for most oil and gas producers. Thankfully, **Vermilion Energy** (TSX:VET)(NYSE:VET) positioned itself to get a premium price advantage for its European production compared to its North American peers.

Last year, Vermilion bought Spartan Energy, which added to its North American operations. The market didn’t like that, especially since the WTI oil price retreated from a high of about US$70 last year to about US$50 per barrel as of writing.

This year, management estimates the company will enjoy premium pricing for about 33% of its production, which in turn will generate about 44% of the company’s operating cash flow and roughly 58% of free cash flow.

Well-managed Vermilion is a rare find among the oil and gas producers, as it has maintained or increased its dividend per share since 2003. In a year, Vermilion stock fell 37%. At $28.76 per share as of writing, Vermilion trades at about five times cash flow, which is absolutely cheap!

At normalized levels, Vermilion can trade at about $45 per share. Currently, **Thomson Reuters** has a mean 12-month target of about $48 per share, representing nearly 67% near-term upside potential! Oh, and Vermilion offers a whopping yield of 9.6% from the recent quotation!

Birchcliff Energy

Birchcliff Energy (TSX:BIR) stock has fallen 31% in the past 12 months. At $3.04 per share as of writing, the gas-weighted producer is ridiculously cheap, trading at about 2.7 times cash flow.

It's hard to say what's normal for natural gas producers, seeing as natural gas prices have been ridiculously low. Short-term pain may lead to long-term gain, though. Gas producers are forced to be more efficient. With the goal to reduce costs to maintain profitability, the most efficient producers will benefit the most when the operating environment swings back to normal.

Birchcliff is one of the most efficient gas producers among its peers and has a proven track record of production growth. It was profitable from 2013 to 2017 with a five-year average profit margin of 17%.

Reuters has a mean 12-month target of $6.06 per share on Birchcliff, representing a chance to double your money! Birchcliff also offers a yield of 3.3% for periodic returns. It's unlikely it will cut its dividend, which is only about 9% of its cash flow.

Investor takeaway

There's no way of knowing if and when oil and gas prices will go higher. So, only consider Vermilion and Birchcliff if you have a high risk tolerance and an investment horizon of at least three years. However, I believe patient investors will be rewarded. Meanwhile, you can earn some returns from their dividends.

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2. TSX:BIR (Birchcliff Energy Ltd.)
3. TSX:VET (Vermilion Energy Inc.)

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