2 Cheap, High-Yielding Energy Stocks for a Cold January

Description

Trying to pick the bottom in the Canadian energy market is like scuba diving in the Mariana Trench. Just when you think you're about to reach the bottom, it keeps going deeper. About three months ago it seemed like shares in companies couldn't go any deeper. But whether the stock is a relatively stable pipeline or a more risky producer, there doesn't seem to be any stopping these stock's decent.

For a few months, **Keyera Corp.** (TSX:KEY) and **Peyto Energy and Exploration Corp.** (TSX:PEY) have both been going nowhere but down. These high-yielding companies have rapidly gotten cheaper. Peyto appeared cheap at around $11, and here it is trading at under $8 a share. Keyera has also sold off, forcing the shares down to $27 a share from the mid-$30s a few months ago.

If you sold Keyera during the sharp drop in price a couple of months ago, you should be ready to re-enter the name. This pipeline company has raised its dividend consistently for years. At the current share price, Keyera pays a monthly dividend of over 6%. Currently trading at a price to earnings ratio of 17 times trailing earnings, the stock is not expensive compared to its historical valuation.

Of course, there are two risks that investors need to consider before adding Keyera. The fact that it operates in the oil and gas sector alone probably makes a lot of investors nervous at the moment. It is primarily gas focused, however, and therefore may be less impacted if the world moves toward green energy, as natural gas is considered to be a relatively clean energy source.

Peyto is the riskiest of the two stocks. This company has paid a large dividend often over time and the present yield is no exception. At the current share price, the stock has a dividend yield of over 9%. Of course, a yield that high tends to indicate a cut may be coming. And as dividend cuts are not out of the question for the company (it cut its dividend by 54% earlier in 2018), a reduced payout is definitely a possibility.

But in spite of the risk to the dividend, Peyto is cheap. The company is trading at a valuation of seven times trailing earnings and a price to book of 0.8. In case you didn't catch that, this company actually has earnings, something that is painfully lacking for many companies in the sector.

It takes a brave investor to foray into energy stocks these days, but if you're looking for value, this is one of the best places to look. These stocks are ridiculously cheap, meaning that any positive news will probably drive the shares in these beaten-down companies higher in a hurry. There could be a lot of money to be made by patient, enterprising investors who take a swing at these battered stocks.

But remember: these stocks won't go up overnight, and you won't see the turnaround coming until after the fact. Investing in these companies will take patience and a strong stomach for volatility. These companies certainly have dividends, so collect them while they are available, but don't rely on them. If you choose to invest in them, however you may be greatly rewarded if oil stocks come back into favour.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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