Quality Energy Stocks With Up to 77% Upside

Description

The WTI oil price is near a two-year low at US$52 and change per barrel. The fall in the oil price from the US$75 per barrel level in mid-2018 has dragged down the stocks of many oil and gas producers, including quality names such as **Enerplus** (TSX:ERF)(NYSE:ERF) and **TORC Oil and Gas** (TSX:TOG).

Enerplus

Enerplus stock was one of the best-performing oil & gas producers in 2018. It declined less than the **iShares S&P TSX Capped Energy Index ETF** with the TSX:XEG ticker. The fund's top five holdings are **Suncor Energy**, **Canadian Natural Resources**, **Cenovus Energy**, **Imperial Oil**, and **Encana**. Notably, the top two holdings make up nearly half of the fund.

ERF data by YCharts. The 2018 price action of TSX:ERF and TSX:XEG.

Enerplus is focused on producing Bakken oil in the Williston Basin in North Dakota and shale gas in the Marcellus in NorthEast Pennsylvania. Its production mix is about 52% natural gas, and it has been focusing on light oil growth with liquids production growth.

Its recent return on capital employed and free cash flow yield are estimated to be in the top quartile of its peer group at 17% and 5%, respectively, while its liquids production growth is estimated to be 22%, which aligns with the peer median. Its recent estimated net debt to cash flow of 0.4 is evidence that it has the strongest financial position among 31 peers.

The **Thomson Reuters** analysts have a 12-month mean target of $17.90 per share on the stock, representing near-term upside potential of about 58% based on $11.30 per share as of writing. The stock offers a 1.06% yield.

TORC

TORC is a quality energy stock that even attracts the investment dollars of the Canada Pension Plan Investment Board (CPPIB), which has a 28% stake in the company. The CPPIB plans to invest in TORC for the long haul as it compounds the dividend monthly. Additionally, insiders own a 4% stake in the $1.35 billion enterprise value company.

TORC has about 88% of its production mix in light oil and liquids and 12% in natural gas. In the last four reported quarters, TORC generated about $276.3 million of operating cash flow.

The management prioritizes its free cash flow first on the balance sheet, second on asset sustainability, third on organic growth, and finally on the dividend. So, don't buy the stock thinking that its nearly 6% yield is safe. Instead, view the dividend as a bonus to the potentially lucrative price appreciation in the stock.

The Reuters analysts have a 12-month mean target of $7.84 per share on the stock, which represents near-term upside potential of about 77% based on $4.42 per share as of writing.

Investor takeaway

Enerplus and TORC are two oil and gas stocks that you should consider on the dip for strong upside when oil prices improve. They're already priced at cheap cash flow multiples of 3.8 and 2.8, respectively, but you may be able to grab shares at an even cheaper price over the next week or two.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)

PARTNER-FEEDS

1. Msn
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