Amazing Value in These Dividend Stocks Under $5

Description

The energy sector is one of the best sectors to shop for bargains today. However, you've got to be very selective. In the oil and gas sector, the companies with clean balance sheets are safer considerations, including **TORC Oil and Gas** (TSX:TOG) and **Surge Energy** (TSX:SGY).

TORC

TORC is a small-cap oil and gas producer that attracts the investment dollars of the Canada Pension Plan Investment Board (CPPIB), which indicates that the company is a relatively safe play in the oil and gas industry. Specifically, CPPIB has a 28% stake in the company, and it shows its confidence in TORC by reinvesting the monthly dividends to increase its stake.

Insiders also own about 4% of the company. Insider buying since 2018 largely occurred at the $6 level, while one insider indirectly bought 5,000 shares of stock in January for $4.50 per share.

If investors can buy TORC when it's cheap, they can get a good monthly dividend while they wait for amazing price gains. Now seems to be an excellent time to consider the stock as it trades close to $4 per share, near a multi-year low, and offers a 6.4% yield. Currently, **Thomson Reuters** has a 12-month mean target of $7.46 per share on TORC, which represents near-term upside potential of +80% from $4.11 per share as of writing.

Notably, management prioritizes maintaining a clean balance sheet, followed by asset sustainability, then organic growth, and finally the dividend. So, TORC's nice yield is better viewed as a bonus than income that's set in stone.

Surge Energy

Surge Energy has increased its production by more than 80% since Q2 2016. To achieve that, it has maintained a relatively clean balance sheet in the expense of near-term dilution by pushing out stock to fund acquisitions. This is partly why the stock hasn't done well lately, as production has actually declined by about 5% on a per-share basis.

Insiders seem to be confident about the company's long-term prospects, though; there were direct or indirect purchases from multiple insiders in the $1.41-1.48 per share range this year. Currently, investors can buy the stock at $1.23 per share, which is about 15% lower.

It seems analysts are equally excited about the growth potential of the stock. Reuters has a 12-month mean target of $2.24 per share on Surge Energy, which represents near-term upside potential of 82%.

Management believes the annual dividend of $0.10 per share is sustainable, but the market doesn't seem to think so. At the recent quotation, Surge Energy offers a whopping yield of 8.13%.

On further investigation, in the last four reported quarters, Surge Energy generated only about $14 million of free cash flow. This year, it's estimated to pay out about $32 million in dividends. If management wants to maintain the dividend, it will likely have to reduce cash spent elsewhere, such as growth capital. Of course, if oil prices improved, it'd be a big help as well.

Investor takeaway

TORC and Surge Energy are two relatively safe oil and gas stocks that you can consider right now for strong upside when oil prices improve. They're currently priced at cheap cash flow multiples of 2.5 and 2.0, respectively, while they can normally trade at multiples of 6.5 and 4.5. If things go their way, the stocks have about 80% of near-term upside potential, according to the analyst consensus.

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1. TSX:SGY (Surge Energy Inc.)

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