Get Big Dividends and Massive Upside From These Energy Stocks

Description

The recent rally in oil prices has breathed some life into energy stocks, particularly in oil and gas producers. As of writing, the Brent oil price is at about US$74 per barrel, the WTI oil price is at about US$66 per barrel, and the WCS oil price is at about US$54 per barrel.

Get a yield of +7% from Vermilion Energy

Vermilion Energy (TSX:VET)(NYSE:VET) is an international oil and gas producer with leading positions in Europe, North America, and Australia. As a result, it enjoys premium pricing for about 37% of its production — 18% and 19%, respectively, of its production mix is in Brent oil and European gas. The premium-priced commodities are important, as they're expected to contribute to roughly 57% of the company's free cash flow for this year.

Vermilion is well managed and employs a self-funded model. The company has increased its production and reserves on a per-share basis since 2013 while keeping its dividend intact. Since 2003, Vermilion has either maintained or increased its dividend per share.

Vermilion is set to generate record free cash flow this year thanks to higher commodity prices, cost reductions, and inventory improvements, which improves the safety of its dividend.

Vermilion stock has recovered about 33% from its low in 2018. However, at about $36 per share as of writing, it still offers a very big dividend yield of about 7.7%. Moreover, **Thomson Reuters** has a mean 12-month target of $42.80 per share on the stock, which represents about 19% near-term upside potential.

Get a yield of +5% from TORC Oil and Gas

TORC Oil and Gas (TSX:TOG) is based in Calgary and focuses on building a sustainable, light oil weighted growth platform. The fact that the Canada Pension Plan Investment Board (CPPIB) owns 28% of the company should instill investors' confidence in TORC. Additionally, the CPPIB continues to reinvest all the dividends it receives from TORC back into the business every month.

TORC estimates average production of 28,000 barrels of oil equivalent per day for this year. Assuming a normalized WTI oil price of US$60 per barrel, TORC's payout ratio would be 68% and net debt to cash flow would be about 1.2 times. So, there's a margin of safety for its dividend.

TORC stock has recovered about 22% from its low in 2018. However, at about $5.20 per share as of writing, it still offers a juicy yield of about 5.1%. Moreover, Reuters has a mean 12-month target of $7.34 per share on the stock, which represents about 41% near-term upside potential.

Investor takeaway

Long-term market returns in the U.S. is about 10%. In Canada the returns are even lower. Here we have opportunities in the stocks of Vermilion and TORC to get double-digit upside potential and big dividends for outsized returns. However, investors must be able to withstand their volatility. As well, it's all the more important to aim to buy low on the dips in these energy stocks.

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1. NYSE:VET (Vermilion Energy)
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