Get Ready for Big Dividends and a Wild Ride to the Upside

Description

Now is one of the best times in the last five years to buy big dividend stocks in the energy sector. Particularly, we'll discuss **TORC Oil and Gas** (TSX:TOG) and **Vermilion Energy** (TSX:VET)(NYSE:VET) here.

Be sure you're ready for a wild ride! It's going to be bumpy. Thankfully, the ride is now more likely to head higher than lower, as the risk/reward ratio has become *much* more favourable for investors today.

Both stocks have taken a hit due to lower oil prices. From April's high, the WTI oil price has retreated about 13% to about US$58 per barrel, while WCS has declined about 28% to about US$40 per barrel, as of writing.

TORC just increased its dividend

TORC has about 88% of its production mix in light oil and liquids and 12% in natural gas. Earlier this month, TORC reported positive first-quarter results, in which it also announced a big dividend hike. The annualized payout is now $0.30 per share, an increase of 13.6%. And the stock is good for a juicy yield of 7%!

For the quarter, the oil-weighted oil and gas producer generated adjusted cash flow per diluted share of $0.34, which increased by $0.02 or roughly 6.2% over the same period in the prior year. It produced 28,267 barrels of oil equivalent per day (boepd), an increase of 23%.

TORC increased its average 2019 production guidance from the previous 28,000 boepd to 28,300 boepd thanks to a strong production base and the continued success of its drilling program.

TORC's payout ratio in the first quarter was sustainable at 84%, thanks partly to an active participation (about 32%) in its dividend-reinvestment program; its largest shareholder, the Canada Pension Plan Investment Board, has a 28% stake in the company and continues to reinvest the dividends every month, which should instill confidence in shareholders.

Thomson Reuters has a 12-month mean price target of $7.53 per share on the stock, which represents 77% near-term upside potential from $4.25 per share at writing!

Vermilion

Vermilion is a global oil and gas producer. About 37% of its production mix enjoys premium pricing from Brent oil (18%) and European gas (19%). It also produces about 35% WTI oil and 20% Alberta gas for its production mix.

Vermilion's production in the first quarter was 103,404 boepd, which was a 47% increase over the same period in the prior year, largely due to the 2018 Spartan Energy acquisition, which boosted its North American production mix to about 62%. Cash flow per diluted share increased by 27%, which proves the acquisition was accretive.

The dividend per share in the first quarter was 7% higher against the same period a year ago. Vermilion has maintained or increased its monthly dividend every year since 2003, through the last recession and the oil price collapse in 2014, which should provide some confidence in the company's dividend, despite its offering a whopping yield of 9.5% as of writing.

Reuters has a 12-month mean price target of $42.70 per share on the stock, which represents 47% near-term upside potential from about $29 per share at writing!

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VET (Vermilion Energy)

2. TSX:VET (Vermilion Energy Inc.)

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