Long-Term Investors, Buy These 2 Dividend Stocks at a Bargain

Description

It's my belief that investors should load up on dividend stocks that will not only provide them with an attractive and sustainable dividend, but that will also provide them with substantial capital gains.

Which means you should buy dividend stocks when they are trading at a bargain and when they have ample cash flow backing their stock prices up.

For those investors driven by long-term potential returns and less concerned with the short-term, the natural gas industry is a good place to look.

Here are two dividend stocks that are trading at a bargain at this time that I believe will prove to be great long-term performers.

Tourmaline Oil Corp. (TSX:TOU)

Tourmaline is trading near all-time lows, as the bad news in the natural gas industry just won't let up, thus driving down natural gas prices and stocks.

Problems getting natural gas out of Canada as well as record production levels out of the U.S. has all but stranded the resource here in Canada and driven prices to their knees.

But I would like to point out two extremely important factors.

The first one is that the natural gas industry is a cyclical one, and we are at the lows of the cycle. The second is that when the cycle turns, the upside is explosive.

Tourmaline has many things going for it that make it an attractive long-term buy.

Most important, cash flow is rising; 2018 cash flow per share increased 7.1% and in the first quarter of 2019, cash flow per share increased 18%.

The company has been increasing its liquids production and is expected to drive significantly higher cash flows in the next couple of years.

Finally, while we wait for a recovery in natural gas, Tourmaline has a dividend yield of 2.69% — a dividend that has been growing, with the latest quarter seeing a 20% increase and one that is well covered, with a payout ratio of 29.5%.

Peyto Exploration and Development Corp. (TSX:PEY)

Peyto is also trading at all-time lows, and as a natural gas company, faces similar challenges and opportunity.

The stock is trading at a bargain, its dividend yield is attractive, at 4.76%, and the company is seeing accelerating cash flows.

Although Peyto ran into trouble because of a more heavily indebted balance sheet and had to reduce its dividend, this natural gas company is also ramping up its liquids production and getting access to U.S. pricing in order to combat weak natural gas prices.

So in 2019, cash flows should look better as 20% of volumes will be exposed to U.S. natural gas pricing and as the company has shifted drilling focus to liquids.

Final thoughts

Cyclical stocks trade in cycles. Natural gas stocks are at cyclical lows. Natural gas as an energy source is not going away any time soon, and with LNG projects finally moving forward in Canada, I see strong long-term gains for patient investors.

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TICKERS GLOBAL

1. TSX:PEY (Peyto Exploration & Development Corp)
2. TSX:TOU (Tourmaline Oil Corp.)

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Author
karenjennifer