3 Top Energy Stocks Yielding 9% or More in the Energy Patch to Buy Today

Description

Oil continues to whipsaw wildly with energy markets reacting sharply to every piece of good and bad news that emerges. While the North American benchmark West Texas Intermediate (WTI) has lost 28% over the last year, it shouldn't deter investors from adding quality energy stocks to their portfolios. Some Canadian energy stocks now offer juicy yields, which in some cases, are in excess of double digits. Let's take a closer look at three energy stocks with massive dividend yields that every investor should consider adding to their portfolios.

Globally diversified assets

After losing a whopping 54% over the last year. **Vermilion Energy** (TSX:VET)(NYSE:VET) has a dividend yielding in excess of 14%, leading to considerable speculation that it is not sustainable. The driller owns a globally diversified portfolio of oil and gas assets with proven and probable reserves totalling 488 million barrels.

Vermilion has established a strategy aimed at mitigating the impact of weaker oil on its financial performance, where it has hedged 39% of its 2019 production to protect its earnings. The company has a long history of growing its oil production; for the second quarter 2019, production was 28% greater than a year earlier. That gave funds from operations a healthy boost, which rose by 14% year over year.

Growing oil output, along with Vermilion's focus on reducing costs and hedging program, will protect its generous dividend and monster double-digit yield. Its sustainability is further emphasized by the driller's projected total payout ratio, including capital expenditures, of 101% for 2019 at an average WTI price of US$57 per barrel. The payment appears covered for the short term, even if WTI falls to under US$50 per barrel.

Conventional oil producer

Another outsized yield in the energy patch is **Surge Energy's** (TSX:SGY) dividend yield of 9%, which can be attributed to the driller losing 58% for the year to date. The upstream oil producer, which is focused on oil production from conventional reservoirs, has oil reserves of almost 123 million barrels.

Surge reported that second-quarter 2019 production had expanded by 26% year over year to 21,544 barrels daily, which was higher than Surge's exit guidance. That, along with the driller's hedging program and focus on cost reductions, will protect its earnings if oil weakens further, thereby enhancing the sustainability of the dividend.

Aside from trading at around a fifth of the net asset value (NAV) of its reserves, Surge's dividend appears safe, at least for the time being. Based on its 2019 guidance, at an average WTI prices of US$55 per barrel, Surge expects to have an all-in payout ratio of cash flow from operating activities of 97%, indicating that the payment is sustainable. Even if WTI falls further and slides below US$50 per barrel, Surge can sustain the dividend for the foreseeable future because of its hedging program and ability to dial back capital spending on exploration and well development.

Quality light oil producer

Whitecap Resources (TSX:WCP) is another Canadian energy stock that has been roughly handled by the market, losing 52% since the start of 2019, despite WTI only falling by around 28%. The driller which has oil reserves of 489 million barrels and is trading at a deep discount to the NAV of those reserves, is paying a dividend yielding a very juicy 9%.

That payment appears sustainable when it is considered that Whitecap has a forecast 2019 total payout ratio of 80% if WTI averages US$55 per barrel during the year. In fact, that ratio increases to sustainable 83% if WTI only averages US$50 per barrel during the year, and it appears that Whitecap can cover the dividend payment if oil falls to as low as US$45 a barrel.

Whitecap has also recently taken further measures to protect its balance sheet in the current difficult operating environment, including dialing back its second-half 2019 capital expenditures to boost free funds flow. That will further ensure that the divided remains sustainable and preserves its already solid balance sheet where net debt is a mere 1.6 times EBITDA.

Foolish takeaway

All three drillers are trading at significant discounts to their NAVs and own quality oil assets, making them promising quality plays on higher crude. While investors wait for oil to recover, they will be rewarded by those sustainable dividends offering very juicy yields of 9% or more.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:SGY (Surge Energy Inc.)

3. TSX:VET (Vermilion Energy Inc.)
4. TSX:WCP (Whitecap Resources Inc.)

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mattdsmith