1 Top Energy Stock Yielding +9% to Buy Today

Description

Oil has pulled back sharply after the international benchmark Brent spiked to over US$75 earlier this month because of fears that war between the U.S. and Iran would disrupt global supply. The North American benchmark West Texas Intermediate (WTI) has fallen over the last three weeks to trade at around US$55 per barrel, applying renewed pressure to energy stocks. The latest decline can be blamed on concerns that the outbreak of the corona virus in China will cause economic growth to soften and industrial activity to slow, leading to lower demand for fuels and other petroleum products.

As a result, many Canadian oil companies have been roughly handled by the market. While this has led to renewed skepticism that oil will never recover, it shouldn't prevent investors from adding quality energy stocks to their portfolios. One attractively valued intermediate upstream oil explorer and producer is **Surge Energy** (TSX:SGY). It has been harshly handled by the market since late 2018 to be down by 20% over the last year, which sees it paying a regular monthly dividend with a monster 9.5% yield.

Positive outlook

Surge is positioned to deliver a strong 2020, despite weaker oil and fears of another price collapse. In its full-year guidance, Surge anticipates producing an average of 21,000 barrels of oil daily, which is around the same as 2019, despite a significant 17% reduction in capital spending. That can be attributed to the efficiencies implemented by the driller and the low 23% company-wide decline rate for its oil wells. Low decline rates mean that significantly less capital needs to be invested to sustain production.

Surge is also focused on controlling costs, which sees it forecasting net operating expenses of up to $14.50 per barrel and transportation costs of $1.75 barrel, which are some of the lowest among Canadian upstream drillers highlighting Surge's profitability.

While there are claims that Surge's dividend can't be maintained and could be cut during 2020, it appears sustainable, because the driller is anticipating an all-in payout, including capital expenditures and dividend payments, of 86% for the year. That guidance is based on WTI averaging US$56.50 per barrel during 2020, which appears likely given that it is trading at around US$55 a barrel and the U.S. Energy Information Administration (EIA) expects it to average US$59 during 2020. The EIA's outlook for crude is one of the more conservative in the industry and indicates that Surge's guidance is achievable.

Importantly, as part of that guidance, Surge expects to generate enough free cash flow to be able to reduce its net debt by $20 million. A stronger balance sheet will provide Surge with greater financial flexibility allowing it to weather another oil price collapse — if one emerges, as some pundits believe — while bolstering profitability in a difficult operating environment.

Foolish takeaway

Surge continues to unlock value for shareholders, and the sharp decline in its market value appears unjustified. The dividend, yielding a monster 9.5%, can be maintained for at least 2020 and appears sustainable over the long term, particularly if oil firms. Surge is trading at a deep 200% discount to its after-tax net asset value, highlighting the considerable upside available, making now the time to buy.

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1. TSX:SGY (Surge Energy Inc.)

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Date
2025/08/26
Date Created
2020/01/24
Author
mattdsmith