2 Undervalued Oil Stocks Yielding +7% to Buy Today

### Description

After soaring to a multi-year high on heightened tensions between Iran and the U.S., which saw energy markets fearful of war and Middle East supply disruptions, crude has plunged to see the international Brent benchmark trading at under US$60 per barrel. This has had a sharp impact on energy stocks, causing many to soften in value. While the outlook for crude remains highly volatile, it shouldn't prevent investors from bolstering their exposure to energy stocks.



The energy sector significantly underperformed the broader market during 2019. The largest sector exchange-traded fund (ETF), **Energy Select Sector SPDR Fund**, gained a paltry 3% for the year compared to the **S&P/TSX Composite Index**, which rallied by 19%. Many Canadian energy stocks have fallen sharply because of the latest decline in the price of crude, which sees the North American benchmark trading at around US$53 per barrel.

While a sustained oil rally may be some time off, there are signs that the sell-off is overdone, and there is compelling value available. Here are two dividend-paying energy stocks that are very attractively valued that every investor should consider.

## Double-digit yield

**Vermilion Energy** (TSX:VET)(NYSE:VET) has lost a stunning 33% over the last year to see it paying a dividend with a very juicy double-digit yield of 13%. There are concerns that the dividend isn't sustainable because of the massive double-digit yield, but there is every indication that Vermilion's dividend is not under threat.

Management has confirmed that the dividend will remain untouched, and it should be noted that the driller maintained the payment, even when crude plunged to under US$30 per barrel. Based on Vermilion's 2020 guidance at an average annual WTI price of US$60.44 per barrel, it anticipated a total payout ratio, including dividends and capital expenditures, of under 100%, indicating that the dividend is sustainable.

The sharp decline in the driller's stock also makes it very attractively valued, because it is trading at a deep 29% discount to its after-tax net asset value (NAV), indicating that there is considerable upside available. While the outlook for crude may be weak, and volatile prices will weigh on energy stocks for some time to come, Vermilion is now too cheap to ignore with the risk/reward equation firmly in the favour of investors.

## Light oil producer

I have been bullish on light oil producer **Whitecap Resources** (TSX:WCP) for some time, despite it being roughly handled by the market. That optimism is finally paying off with the stock rallying substantially since early December 2019 to be up by 13% over the last year.

Even after that solid rally, Whitecap is still paying a dividend yielding a very appealing 7%. While there are concerns that weaker crude is threatening the sustainability of Whitecap's dividend, there are signs that it can be maintained. The driller anticipates that at an average 2019 price for WTI of US$60, it will generate $310 million in free funds flow and have an all-in payout ratio of 75% after allowing for capital spending and dividend payments.

If WTI only averages US$55 per barrel, the dividend can be maintained because the payout ratio is still a sustainable 85% and Whitecap will generate $232 million of free funds flow. The dividend even appears safe if WTI falls to as low as US$50 per barrel. Even after its latest rally Whitecap is still trading at a deep 40% discount to its after-tax NAV, indicating that there is considerable upside ahead, particularly once crude recovers, making now the time to buy.



**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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