A 9% Yielding Stock That Could Double in 2020

Description

I have mixed feelings with oil companies' stocks moving back down again. It was nice to see some significant green on the screen for a while and it's definitely disappointing to see them getting hammered once again. On the other hand, I am excited to look for more companies to buy.

The thing is, though, that the current state of the Canadian oil industry has put oil stocks in a rather unusual position. There simply aren't enough buyers to push up the share prices.

Generally, I have been looking for companies with big yields that appear to be supported by their funds flows, debt repayment, share buybacks, and insider trading.

One of my favourite companies that hits all of these targets is **Whitecap Resources Inc.** The 7% yield is still very attractive, as is the insider buying.

Another company that's at the top of my list and is a new addition to my oil stock portfolio is **Surge Energy Inc** (TSX:SGY). With a market capitalization of around $300 million, it's much smaller than Whitecap. Nevertheless, its yield and the fact that insiders are buying shares makes it an extremely attractive company to watch.

Right now, the monthly dividend yield on Surge Energy is quite tempting at 9.35%. Usually, a yield of this magnitude could indicate that there may be a cut in the future.

With commodity stocks, you never know if this is going to be the case. These companies are reliant on market conditions, so you always have to be vigilant.

Surge has maintained, though, that it has a free cash flow from operating activities yield of over 6%, giving it a fair amount of cash for its hefty dividend. The company pins its payout at about 19.3% of Q3 2019 adjusted funds flows, a pretty low payout ratio when looked at from that angle.

At current oil prices so far in 2020, the company has an all-in payout ratio of about 86% of cash flow from operating activities, after deducting around $10 million in lease obligations.

This company has been paying down its debt at a pretty good pace. In the first nine months of 2019, the company reduced its net debt by $84 million. It further estimates that it will reduce its debt by more than $20 million if oil prices continue to cooperate.

Finally, Surge insiders have been buying up shares at a pretty steady clip over the last couple of years, with a lot of activity in the third quarter of 2019.

Furthermore, there has been very little selling at this company. You have to believe that insiders want to collect their dividends as well as you do, making that dividend seem just a little more secure.

The Foolish takeaway

The Canadian oil sector is just giving away shares of high-yielding, profitable companies. In a few years, it seems entirely possible that people will look back with regret at the cheap shares they could have purchased with massive dividends.

Tack onto that yield the potential for rising share prices and the case is pretty clear-cut on a risk-to-reward basis.

I know that many investors have been burned in recent years. The commodity space is a volatile place, and you have to have a strong stomach to buy these shares. But we often focus on the risk and forget about the reward.

Besides, you'll be likely receiving an over 9% dividend while you wait — not bad from where I'm sitting.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2020/01/29
Author
krisknutson