Big Company or Big Yield: Which Oil Stock Should You Buy?

Description

Trying to pick stocks is a tricky proposition. Warren Buffet has famously stated that investing is simple, but it isn't easy. While the market gives you an abundance of choices, it's up to you to pull the trigger and invest in the one that best suits you.

The Canadian oil patch is one of the best places in Canada, perhaps in the world, to look for cheap, profitable businesses that could give you an excellent return over the long run. The problem is that there are so many companies to choose from — and far too many to go through in this article.

The best way to choose a stock is to think about what you are looking for in your investment. Do you want a higher risk company with a giant yield and the possibility of big capital gains? Or would you like a larger, more stable company with a history of steady dividend increases but with potentially has less upside and a smaller yield.

Big company, more security

In Canada, there are a few companies that are considered to be big oil, but one of the best producers in the business is **Canadian Natural Resources Inc.** (TSX:CNQ)(NYSE:CNQ). This company has been an excellent investment over the years, providing relatively steady returns in a highly volatile market.

The hallmark of the company is its commitment to its balance sheet. Where other companies were borrowing heavily during the good times to increase production at any cost, CNQ maintained a slow and steady wins the race mentality. Therefore, when bad times came knocking, CNQ was able to buy properties at a discount.

It was also able to continue to pay and even raise its dividend payout during these tough times. While many companies were slashing their payouts, CNQ returned capital to its investors with regular dividend increases.

Right now, CNQ pays a quarterly dividend of $.0375 a quarter, which amounts to a yield of about 3.88% at the current market price.

Big dividend, more upside

If you're looking to get a little more bang for your investing dollars, you might want to take a look at **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET). This is a much smaller, much more risky play on oil and gas.

Similar to CNQ, it has significant operations outside Canada, particularly in Europe, allowing the company to receive the higher Brent crude price for its products.

The downside of this company is the fact that it hasn't maintained as solid a balance sheet as CNQ. This fact, along with some relatively lackluster earnings reports recently, has resulted in the stock being punished severely by the market.

As a result of the drop in its share price, Vermilion now has a dividend yield of around 13.41%. A yield this high can sometimes spell trouble for a company's payout. However, management has stated that this dividend, which has never been cut before, is still safe for the time being.

The bottom line

Both stocks have something to offer investors if you're looking to make a good return and have a decent dividend. More conservative investors would do well owning CNQ because of its stability and solid, growing dividend yield. People looking for more reward would probably prefer the slightly riskier Vermillion, however.

Personally, I bought Vermillion as I am looking for a big bounce in Canadian oil companies. That may change, however, should CNQ fall to the point where it's yielding 5% or more. That would put the stock around $30 a share, depending on how big the next dividend increase is in 2020. Either way, making a bet on Canadian oil will likely be a win for investors going forward.

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2. NYSE:VET (Vermilion Energy)
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krisknutson