5 Best Energy Stocks for Growth and Stability

Investors Alley

Introduction

By Marshall Hargrave

It looks like oil prices finally plateaued and, with that in mind, now is the best time to go on the offensive to pick up some great companies at bargain valuations. These five stocks are poised to soar as oil rebounds and have over 3% yields to boot.

Calling a bottom in anything is never easy, and often times impossible.

But here we go; by all accounts, oil appears to have put in a bottom. Now, I'm not saying oil will be at $100 a barrel in six months.

Rather, it could lull around the $60 a barrel for several months.

It's for that reason, along with the fact that it could be a slow move upward, that investors should seek refuge in oil stocks that will provide income, in addition to stock price growth.

Oil prices experienced a powerful downward spiral from $100 a barrel to $50 in just six months. That story is well-told and well-known. A glut of oversupplied oil appeared to be driving the drop.

The shale boom in the U.S. was the main culprit, leading to a boom in oil supply across the globe. But after the collapse in oil, shale players started reining in oil production by cutting capital expenditures and idling drilling rigs. After several months, all this is finally translating into deceased production.

Last week, the government released numbers that showed U.S. oil production is finally starting to fall. Oil production fell by 36,000 barrels a day, which doesn't sound like much, but it is an important market to what was a seemingly endless climb to record oil production levels in the U.S.

Through all this, demand has remained *en vogue*. So, the supply and demand imbalance is getting reined in rather quickly.

Global unrest is still afoot, which is also working against low oil prices, or for them, depending on which side of the trade you're on. Recall the spike in oil we saw after Saudi Arabia launch air strikes against Yemen.

Now, will it rocket back to $100 a barrel in six months? That's tough to say, but as long as prices remain low, the likelihood of a supply shortage only compounds.

Nonetheless, it does appear to be a buying opportunity here; a chance to lock in certain oil stocks trading at ridiculously low valuations and multi-year lows, but especially those that will perform well as oil prices rise over time.

I think it's infinitely harder to estimate exactly how fast oil prices will rebound, that's why I like oil stocks paying hefty dividends. I'm talking about 3% to 5% dividend yields that are protected by strong balance sheets and backlogs of work.

So, for investors looking to play offense here to capitalize on the oil bottom, it also pays to be a bit defensive. Without further ado, here are the five ways to play the oil bottom (flip to next page for first stock).

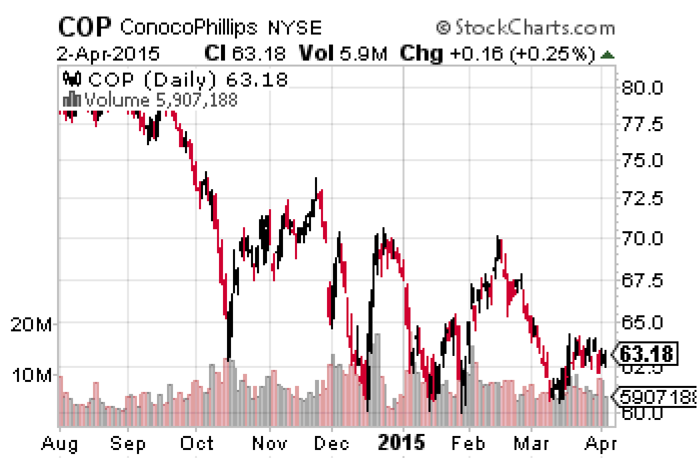
1) ConocoPhillips (NYSE: COP)

Sometimes biggest is best, and when it comes to the oil Supermajors, ConocoPhillips is the best way to capitalize on the oil bottom.

With a $78 billion market cap, it's one of the largest oil and gas companies around. But the real reason to like it is, since the 2012 spinoff of its refining business, now trading at **Phillips 66 (NYSE: PSX)**, it's the largest independent pure play oil explorer and producer in the world.

Meaning, unlike the typical Supermajors, which are large *integrated* oil and gas companies, ConocoPhillips makes all its money from finding and extracting oil. Thus, it's much more levered to oil than the likes of **Chevron (NYSE: CVX)** and **Exxon Mobil (NYSE: XOM)**.

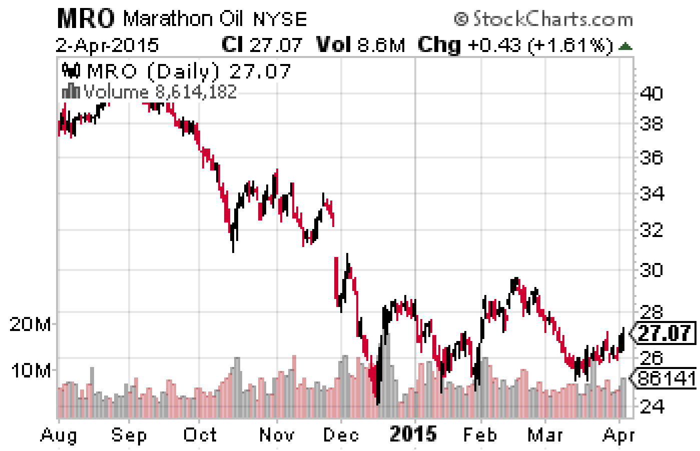
Its dividend yield of 4.7% is also well above what you'll get from other large oil companies, including fan favorite Exxon Mobil, which is paying just 3.2%. ConocoPhillips has also upped its dividend for two years straight now.



Operations wise, the reason we like ConocoPhillips as a *stable* way to play the oil bottom is that it only operates in stable OPEC countries. Most notably, it also has large positions in the fast growing Bakken and Eagle Ford shales in the U.S., which will be big benefactors from an oil price rebound.

2) Marathon Oil (NYSE: MRO)

Marathon Oil is an underrated exploration business. It too spun off its refining business a few years ago, but with just a $18 billion market cap, it's sometimes overlooked. It's paying a 3.1% dividend yield and has upped its dividend for three consecutive years.



The reason to like Marathon is that it has exposure to a number of liquids-rich shale plays. These plays include the Bakken and Eagle Ford shales.

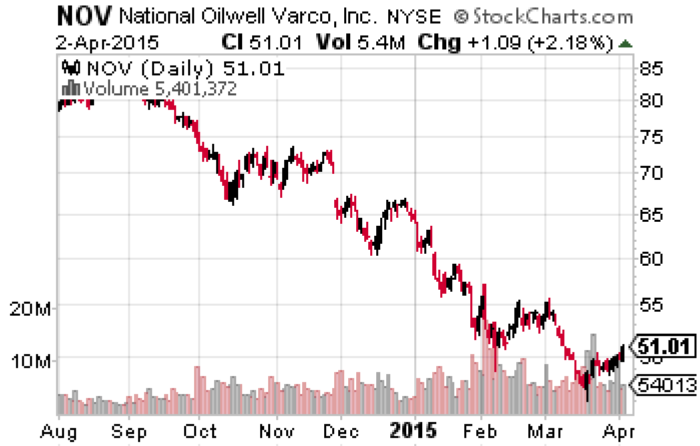
Marathon also has a strong balance sheet, where it had nearly $5 billion in available liquidity going into 2014. What this means is, instead of having to continue producing oil at a cheaper price just to cover debt payments and meet obligations, it has been able to cut production in rapid fashion, in an effort to save its valuable acreage for when oil prices are higher.

Now let's get into a few more volatile (read: speculative) plays starting on the next page.

3) National-Oilwell Varco (NYSE: NOV)

National-Oilwell is the $20 billion market cap oil service equipment maker, but it's already been rocked this year, having its stock fall 20% over the last three months.

But it still has a healthy dividend yield of 3.6% and has upped its annual dividend payment for six straight years. Balance sheet wise? Well it has enough cash to cover its entire debt load, so there's that.

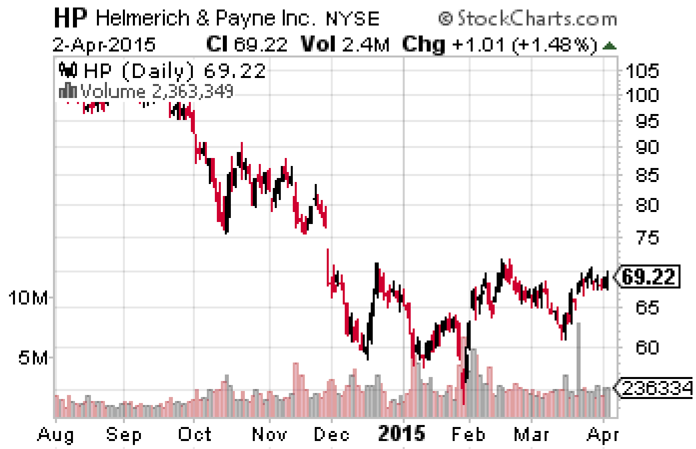


It counts many of the major drilling companies as customers. And it's the market share leader in nearly every product it makes. Yet, its core customer is offshore drillers, which has been a volatile bunch.

Nonetheless, it also has $14 billion worth of backlogged work, compared to its $20 billion in annual revenues. So this alone will help cushion the company should oil prices remain *stubbornly* low.

4) Helmerich & Payne (NYSE: HP)

HP is an onshore driller of oil and gas wells in the U.S. And with a $7.5 billion market cap and just $80 million in debt, it undoubtedly has the best balance sheet of our five stocks. It goes without saying, but it has more than enough cash to cover its debt.



The story gets better too. Shares are trading at an enterprise value-to-earnings before interest taxes depreciation and amortization (EV/EBITDA) multiple of just 4.3x. The last time we saw HP this cheap was back in 2008-2009.

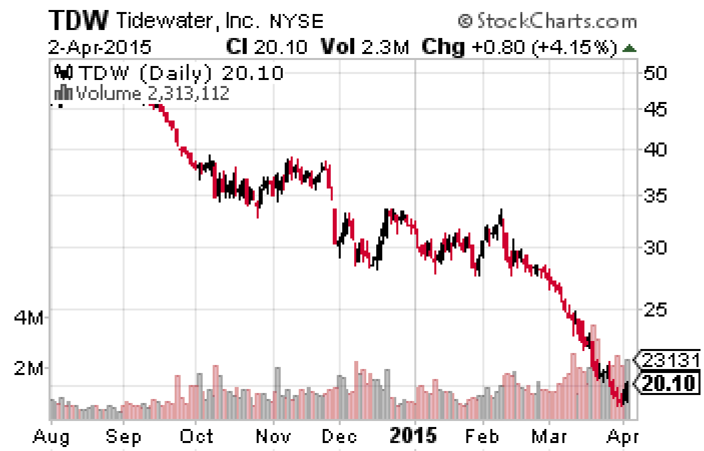
Let's not forget the near 4% dividend yield; that's the highest we've seen since the late 80s. It also has a 42 year streak of dividend increases. It just upped its dividend, showing resiliency at a time when other oil-related companies are cutting theirs. Plus, its backlog is above $4.5 billion, compared to its $3.9 billion in revenues from the last twelve months.

The beauty of HP is that it has vast exposure to the horizontal drilling market, which has quickly become the *go-to* method for drilling in the U.S. -- 70% of the wells in the U.S. are being drilled horizontally.

It has managed to grow its market share from less than 5% to nearly 20% over the last decade, having taken share from the likes of **Nabors (NYSE: NBR)** and **Patterson-UTI Energy (NASDAQ: PTEN)** during the financial crisis of 2008.

5) Tidewater (NYSE: TDW)

With a 5% dividend yield, it's our highest yielding play. It's also our most indebted play, where its market cap is right at $1 billion, but it carries some $1.5 billion in debt. Then there's the fact that it services the offshore drilling industry. Which makes it our most volatile play.



The oil & equipment services industry is one of the worst performing over the last six months, having fallen 24%. This comes as offshore drillers like **Transocean (NYSE: RIG)** and **Pacific Drilling (NYSE: PACD)** have taken a beating, down more than 50% over the last six months. Tidewater is right there with them, off 48% over the same period. Trading at $20 a share, Tidewater has now sunk to 15-year lows.

But back to the dividend for a minute, it's the highest yield we've seen from Tidewater since the early 90s. We're also encouraged by the fact that its dividend remained intact throughout the last oil collapse in 2008, where the company actually upped its quarterly dividend from 15 cents to 25 cents during that time.

There are positives for Tidewater in the current environment, however. This includes the fact that it has one of the newest fleets of vessels among offshore services, which means its vessels are in higher demand and they command a higher price.

In closing, I've said before that "trying to time a bottom in prices will be a fool's game." This remains true, hence the reason the overarching theme from above is oil stocks paying enticing dividend yields. We no longer liken investing in oil to trying to catch a falling knife. It has hit its bottom and now it's a game of wait-and-see until oil prices start to rise, thanks to the law of supply-and-demand. That's why we like stocks that also pay hefty dividends.

Bonus Stock Research

The following bonus stock research comes from Investors Alley's in-house income and dividends expert, Tim Plaehn. Tim is the rare analyst who possesses solid expertise in dividend and income strategies while also being a foremost expert in the energy markets. Below he shares one of his best recommendations for getting high-yield from an energy related company tied to but not dependent on the energy space. This means the company can profit when times are good for the energy sector and diversify when energy companies are experiencing significant challenges. Please enjoy this bonus research with my compliments.
— Marshall Hargrave

My Most Undervalued, High-Yield Secure Dividend Stock

The stock market volatility and falling share prices we have experienced over the last several months have produced price disruptions that are not justified by the underlying business operations of the companies whose share prices have been driven down. Leaving the field wide open for finding extremely undervalued businesses where investors can find quick price appreciation.

In the case of high-yield stocks, a sharp drop in the share price forces investors to decide whether the decline is due to a possible dividend rate cut or is just a case of overblown fear about a dividend reduction that will not actually happen. In our case, it's the latter. The stock unveiled in this article has been hammered along with the rest of the energy sector, but the good news is the business is healthy and the dividend may even increase shooting the stock price even higher.

The steep decline in the price of a barrel of crude oil has resulted in a sell off of almost any stock that is even remotely related to the energy sector. While the lower share prices may be appropriate for companies with revenues directly tied to the price of oil, many other stocks have been tarred by the same brush but are not in danger of a collapse in revenues.

Out of the dividend stock recommendations I have for my subscribers with [The Dividend Hunter](), **Ship Finance International Limited (NYSE:SFL)** is now the stock with the most striking combination of recent share price decline and a high probability the dividend will continue at the current rate or higher. With its current 11.3% yield, SFL offers that very attractive yield plus potential capital gains when the market realizes the current dividend rate is safe.

The market is worried about Ship Finance because the company derives about 80% of its revenues from lease payments on crude oil tankers and offshore drilling rigs. Fears about the revenue streams from these sources have resulted in a 25% share price drop (from about $20 down to the current $15) since August 2014. Here are the reasons why Ship Finance will not be hurt by these sectors of its business.

Oil Tankers (20% of revenue): Oil tankers are actually a hot commodity in the current crude oil environment. Crude producers and traders are storing oil to wait for higher prices. In this type of market, with longer term futures contracts that allow an owner of crude oil to lock in a significantly higher price if the oil is held in storage until the futures mature 6, 9 or 12 months in the future. In this type of crude pricing market, oil tankers are a readily available and mobile source of oil storage capacity. Ship Finance will actually generate extra cash flow from its tanker fleet, which all have profit sharing built into the lease contracts.

With its offshore vessels and leases (50% of revenue) Ship Finance leases are structured as very long term contracts. The four offshore rigs owned by Ship Finance are leased out to high quality clients, with remaining lease terms ranging from 3.5 to over 14 years. Ship Finance pays down its debt against the rigs faster than the balances owed by the client companies pay off. As a result, SFL is always in a strong equity position that can be converted to cash if a lease is terminated under terms of the contract. For example, in January Seadrill has exercised the purchase option on one of three deep water drill rigs leased from Ship Finance and SFL will realize $108 million in net cash from the $456 million purchase price.

The current SFL dividend requires $38.3 million of cash flow each quarter. Over the last year, cash flow was $186 million and Ship Finance was able to pay down $215 million of debt principal. The current $0.42 quarterly dividend (recently raised from $0.41) is safe and Ship Finance is much more likely to raise the dividend rate rather than announce a reduction.

As noted above, SFL now yields 11.3% at its current share price. Historically, this stock yields in the 8.5% to 9% range, which means a more normal share price is between $18.20 and $19.30. I will not be surprised if SFL climbs to above $16 after the fourth quarter earnings announcement later in this month.

Stable energy stocks like Ship Finance have been an integral part of the income growth strategy with my newsletter, **The Dividend Hunter**, since the very beginning. And they've particularly helped my subscribers looking for a consistent source of monthly income using my **Monthly Dividend Paycheck Calendar**.

The **Monthly Dividend Paycheck Calendar** is set up to make sure you're getting 6, 7, even 10 dividend paychecks per month from stable, reliable stocks with high yields.
Average monthly payouts are currently $2,815, with some months as high as $4,347.

The calendar ensures that your dividend stock income stream will be more stable and predictable as you're getting payments every month, not just once a quarter like some investors do.

The **Monthly Dividend Paycheck Calendar** tells you when you need to own the stock, when to expect your next payout, and how much you could make from stable, low-risk stocks paying upwards of 8%, 10%, even over 20% in the case of one of them. I've done all the research and hard work; all you have to do is pick the stocks and how much you want to get paid.

The next critical date this month is coming up quicky, so you'll want to take action now to make sure you don't miss out. **Click here to find out more about this unique, easy way of collecting monthly dividends**.

Best Regards,

Tim Plaehn
Editor
The Dividend Hunter

P.S. I developed the monthly calendar with all levels of income investors in mind. Whether you're a seasoned pro at income investing or just getting started, the Monthly Dividend Paycheck Calendar can help you grow your dividend income faster than you ever imagined. **Click here for details on how to get started today**.