RRSP Investors: Trust This 8.5% Dividend From Vermilion Energy Inc (TSX:VET)

**Description**

If you have money in an RRSP, you can receive dividends tax-free. That's a huge advantage versus other investors. It means that when you find a high-yield stock, you can expect to receive the full payout, as long as the company can continue to afford it.



Most income investors are skeptical about yields over 8%, and for good reason. Often, high-yield dividends are paid out with debt. Other times, the company avoids reinvesting in attractive projects to sustain their sky-high payout.

But what if I told you there is an 8.5% dividend that's not only fully supported by cash flows but also comes from a company that hasn't cut its dividend in more than 15 years? Allow me to introduce you to **Vermilion Energy** (TSX:VET)(NYSE:VET).

## A management team you can count on

Vermilion's management team and employees currently own roughly 5% of all diluted shares, representing a $250 million stake. There are few better ways to incentivize management than to give them skin in the game. Judging by the results, Vermilion's executives have done a terrific job maximizing their stakes as well as the stakes of their investors.

Vermilion's business units are separated into three areas: Europe, North America, and Australia. Around 60% of its production, however, comes from Canada. In total, half of its output is from oil with the other half being natural gas. However, due to profitability differences, roughly two-thirds of free cash flow comes from oil, while only one-third is derived from its gas production.

While this type of oil versus gas diversification is typical, Vermilion's management has strategically focused on a few differentiating factors.

First, its oil output is high quality and completely priced at either WTI or Brent crude prices. Having the right exposure helped it avoid a calamitous pricing collapse that forced many Canadian producers to sell at 50% discounts to WTI prices. Staying in high-quality regions has helped Vermilion achieve the highest oil selling prices on the market.

Second, its gas exposure is partially located in areas with structurally higher prices. Fracking has caused a massive supply glut for most North American natural gas producers. Meanwhile, prices in Europe are more than double the North American price. With about 40% of its natural gas production located in places like Germany, Ireland, and the Netherlands, Vermilion is ensured profitable selling prices.

These two factors have been a boon for Vermilion shareholders, and they have a savvy management team to thank.

## Don’t discount this dividend

Vermilion’s 8.5% dividend isn’t a result of reckless capital management. This year, dividends are expected to comprise less than half of fund flows from operations.

The high dividend is actually a result of a low valuation. Currently, shares trade at a whopping 15% free cash flow yield. With low debt levels and mitigated pricing risk, it’s rare to find such a quality company trading on the cheap.



In November, Raymond James upgraded shares due to their exceptionally low valuation, noting that they “rarely suggest valuation as a catalyst, but this a real exception.” Looking at the data, it’s hard to disagree that Vermilion is a strong buy, especially in a tax-advantaged vehicle like an RRSP.

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