A 9.7% Yield for TFSA Retirement Income

Description

Canadian retirees are searching for ways to increase the income they get from non-pension sources.

One option to boost cash flow involves owning high-yield Canadian stocks inside a TFSA portfolio. The TFSA protects the distributions from being taxed and gives pensioners a chance to pick up some tax-free capital gains in the event the share prices rally and the stocks are sold for a profit.

The challenge with high-yield stocks is that they often come with higher risks, as the market might be of the opinion that the payouts are not sustainable. In this case, there is a threat of a double hit. Share prices can drop if sentiment sours on the stock, and if the payout gets cut, investors lose the extra yield they'd originally wanted when they'd bought the shares.

That said, the market sometimes gets things wrong, and in these cases investors can pick up reliable payouts when stocks are oversold. For example, anyone who bought the Canadian banks during the Great Recession picked up great yield and subsequently watched the stock prices and the dividends rise over the next 10 years.

Let's take a look at one high-yield stock that might be an interesting income pick right now.

Vermilion Energy

Vermilion Energy (TSX:VET)(NYSE:VET) trades for $28 per share and offers a dividend yield of just under 10%. This would normally set off warning signals. In fact, a quick look at the stock chart could easily scare investors away. Vermilion Energy traded for $70 per share five years ago.

The company is an oil and gas producer with assets in Europe, Australia, Canada, and the United States.

Management says the capital program and dividend payout can be covered through internal cash flow. The Q1 2019 payout ratio was above 100%, but full-year 2019 should be better. The company gets good prices for its international oil and gas production and owns attractive assets in Canada and the

United States.

If oil prices go into another nosedive, margins would get squeezed, and the payout could be at risk of a cut. That's the nature of the oil and gas game.

However, the 2019 bottom is likely behind us, and there is a possibility the market will improve through the end of the year and into 2020. This would provide adequate support for the dividend and could put a tailwind behind the stock.

Should you buy Vermilion Energy today?

I wouldn't back up the truck due to the volatility of the energy markets, but it might be worthwhile to add a small contrarian position of Vermilion Energy to the portfolio to bump up your average return. At this point, the stock appears somewhat oversold.

If you are hesitant to pull the trigger today and don't mind missing some potential upside, it would make sense to wait until the Q2 results come out to see if Vermilion Energy maintains guidance for the year.

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