



## Forget About IPOs: This High-Yield Stock Is a Surer Winner

### Description

There's a higher level of speculation when it comes to investing in initial public offerings (IPOs) because an IPO is when a private company first makes its shares publicly available to institutional and retail investors.

Oftentimes, the IPO allows the underlying company to raise lots of capital from the market to fund the business's growth endeavours. Unfortunately, there's no guarantee that these endeavours will be a success. And when they do fail, the stocks drop like a rock.

In fact, it's very common for stocks that just had their IPOs to get pumped up by speculators and traders before they sell the stocks to book quick profits. It's especially easy to do that if the stocks have a small market cap. Inexperienced investors might then be left stuck with shares that were bought at very high prices.

Additionally, there's no public trading history of IPO stocks. So, there's no way of telling how risky or volatile they could be.



Here's a surer win with this high yield stock that has strong upside potential.

## Vermilion Energy

Since 2003, **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#)) stock has paid cumulative dividends of \$37.56 per share. An investment that was bought at the start of 2003 was about \$11.20 per share. Therefore, investors would have gotten 3.35 times their money back from dividends alone and total returns of 11.4% over the period.

Back then, the stock traded at a price-to-cash-flow ratio of about 4.4. Coincidentally, VET stock trades at less than 4.5 times cash flow at \$28.35 per share as of writing. Notably, the stock has traded at about 10 times cash flow time and again.

Let's be conservative and say that the stock will trade at 7.25 times cash flow at some point, which would imply a fair value estimate of about \$46.33 or 63% upside from current levels!

In the meantime, VET stock offers a whopping yield of 9.74%! The company's July investor presentation suggests that it can maintain sustaining capital *and* the dividend at a WTI price of US\$40 per barrel. To cover for growth capital too, it requires about WTI in the low US\$50s. Thankfully, in the past year, WTI has traded largely at or above US\$55, and it's currently sitting at above US\$60.

## Foolish takeaway

While there are ways to [make money investing in IPOs](#), I believe it's a surer win to invest in dirt-cheap VET stock, which offers a yield of close to 10% that [the CEO recently gave the thumbs up for](#) and appetizing upside.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)

## PARTNER-FEEDS

1. Msn
2. Newscred
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