Why Vermilion Energy's (TSX:VET) 12% Dividend Could Be Safe (for Now)

Description

Dividend stocks can offer investors a lot of cash flow for years. However, investors should always be careful when selecting which stocks to invest in because simply selecting the highest yield is not the safest approach. After all, a company paying a high dividend may not be able to do so for a long period.

One stock that dividend investors might be worried about is **Vermilion Energy Inc** (TSX:VET)(NYSE:VET). The company recently released its quarterly results, which fell short of expectations.

With cash flow also being a bit low, questions arose around the company's ability to continue paying its dividend.

Currently, Vermilion's dividend yield is up over 12% thanks in large part to a struggling share price that's been cut in half over the past year. The stock is down around 30% even in the past three months.

Despite all the bearish activity and concern for the stock's dividend, President and CEO Anthony Marino was recently interviewed by *BNN Bloomberg* and downplayed any concerns about a dividend cut.

Marino it clear that dividends were a priority for the company and that Vermilion would likely make efforts elsewhere to help ensure it wouldn't have to slash its payouts.

It's debatable whether those words would be reassuring to investors given that in three of the past six quarters, Vermilion's free cash flow has been in the negative.

The company has also consistently paid out more in the way of dividends than it has had available in free cash flow. The last time that wasn't the case was back in 2017.

That investors are worried is therefore quite understandable, as the stock is yielding a very high rate and the company's cash flow has not been very strong in recent years. While the CEO may say that dividend payments are fully funded, that doesn't mean they will remain that way in the future.

Key takeaways for investors

What’s clear to me is that Vermilion isn’t interested in cutting its dividend — certainly not in the near future. A year or two from now, however, that may not be the case, as conditions in the oil and gas industry could look much different.

However, for the foreseeable future, Vermilion looks to be committed to continue paying its dividend; that could be good news for dividend investors and an opportunity to hold onto the stock for a year, presumably collecting a very high dividend and then re-evaluating at that point whether the company is in a better position and making any necessary changes.

Ultimately, there will still be a risk, but if the CEO’s words are to be taken at face value, then there appears to be some stability there, at least for the short term. Over the long term, however, all bets are off.

I certainly wouldn’t bank on the company’s dividend being around for long unless things drastically improve with respect to its share price and overall performance.

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