Dividend Investors: Lock In This Massive 12.2% Yield Today

Description

Market timing is essential if you want to make the most of your stock investment. You could invest in Canadian oil driller **Vermilion** (TSX:VET)(NYSE:VET) at the start of the fourth quarter of 2019 to lock in on the stock's 12.2% dividend.

Vermilion is very attractive to most dividend investors not only because of the high dividends. This $3.47 billion energy company is globally diversified and is continually growing production. Vermilion's energy-related operations span across Canada, Australia, Central and Eastern Europe, as well as the U.S.

At a price of less than $25 per share, you'll be getting value for money as 2019 comes to close. More so, your investment could double in just six years.

Conventional oil play

Vermilion doesn't intend to follow the unconventional oil play in the U.S. energy sector. The company is sticking to the traditional way because of the long reserve lives and slower decline rates.

Its business in North America comprises 62% of total production while Europe and Australia form 33% and 5%, respectively. The growth trend of Vermilion began in 2013 and was enhanced by two major acquisitions in 2018.

But some market observers fear a dividend cut is looming because of the company's projected full-year capital spending of $530 million. If Vermilion can generate $800 million in cash flow and earmarks 50% of that for dividend payments, it would fall short by $160 million to cover capital spending.

Unfounded fears of a dividend cut

Historically, Vermilion hasn't implemented nor found the need to implement a dividend cut. While dividend coverage might be tight this time, the company could seek funding from the capital markets.

But the problem could be solved outright if oil prices increase. However, the latter is hard to predict.

The only risk to wipe out Vermilion's dividend is if oil prices fall sharply and sustains for a long time. According to Vermilion, if the price of oil drops to US$40 per barrel, it could cover capital spending and maintain the high dividend. But the current price hovers between US$50 and US$60 per barrel. Thus, the dividends are safe.

You can't fault investors who exited the stock when Vermilion's share price fell to below $20 in mid-August. Because of waning oil prices, many independent oil and gas exploration and production companies tumbled. A further fall would pose cash flow problems and jeopardize Vermilion's high dividend payout.

Rosy picture

Even with Vermilion's aggressive capital-spending plans, the outlook is still rosy. As mentioned earlier, the company can proceed with capital spending and reward investors with high dividends at the same time.

Vermilion has revolving credit lines available in case there are funding requirements. However, based on its 2019 guidance, the average annual price would be no lower than US$56.50 for WTI.

Thus, Vermilion is going full steam ahead with capital spending and growing production. It can produce adequate liquidity to ensure dividend is sustainable, and investors are kept whole.

Somehow, I agree with the analysts' projections that Vermilion could jump to as high as $40 in 2020. They see the company maintaining an annual growth rate of 26.3% in the next five years.

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