TFSA Investors: $10,000 in This Canadian Energy Stock Will Pay $1,400 in Yearly Dividends

Description

Investors are always on the lookout for generating passive income. A second stream of capital or revenue can result in solid wealth creation over a period of time. Dividend stocks provide this and much more in the form of capital appreciation.

Here we take a look at one such Canadian stock that has a high dividend yield and provides considerable passive-income opportunity.

Vermilion Energy is globally diversified

Vermilion Energy (TSX:VET)(NYSE:VET) is a Canada-based international energy company. In the last year, it generated over 73% of sales from crude oil and condensate products while the rest were from the natural gas segment.

Vermilion is an exploration and production company with a strong market presence in Europe, North America, and Australia. It has a self-funded business model and is supported by business units that deliver high margins with low decline rates, resulting in strong capital efficiencies.

The company has claimed that each major business unit generates free cash flow. The company has an enviable record of consistent production growth with global exposure, project diversification, and low financial leverage.

Vermilion estimates North America production to account for 66% of total production in 2020, followed by Europe at 29% and Australia at 5%. North America is expected to contribute 57% in operating cash flow. This figure stands at 34% and 9% for Europe and Australia, respectively.

Is the dividend payout sustainable?

Vermilion sales rose from $894 million in 2016 to $1.53 billion in 2018. Analysts expect sales to rise by

11.7% to $1.7 billion in 2019 and then fall 5.3% to $1.62 billion in 2020. They also expect its earnings to fall by 79.3% in 2019 and then rise by 32% in 2020.

Between 2020 and 2023, the earnings are estimated to rise at an annual rate of 98%. With a market cap of $3 billion, the stock is valued at 1.8 times 2019 sales. Its EV-to-sales multiple stands at three, while the EV-to-EBITDA multiple is 4.9.

The company pays a monthly dividend of $0.23 per share, which amounts to a yearly dividend payout of $2.76 per share. This indicates a solid dividend yield of 14%. An investment of $10,000 in Vermilion stock will generate $1,400 in annual passive income. This amounts to a monthly payout of $116.7.

As stated by Fool contributor Christopher Liew, a $50,000 investment in the stock could be worth $200,000 in the next 10 years, considering the company maintains its high yield. So, is it possible for the firm to keep paying dividends?

The dividend-payout ratio for Vermilion stands at 111%, which is not sustainable. It has a debt balance of $2.05 billion, which will require regular interest payments. Though the company has a cash balance of $10.23 million and an operating cash flow of $782 million, it will have to improve cash flows to maintain its high payouts.

Investors have lost significant value over the past five years due to overall weakness in the energy sector. The stock has fallen from $46.25 in December 2014 to its current trading price of $19.8. Vermilion stock has, in fact, lost 65% in market value since December 2016. But will it bounce back in 2020?

Analysts have a price target of $24.53 for Vermilion stock. This is 24% higher than its current trading price.

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