Beat Lower Oil With This Super +12% Yielding Dividend Stock

Description

The prospect of long-term lower oil came into clearer focus last week as investors watched the sector rebound quickly from the situation in the Middle East. Technology is also helping rigs to become more productive, further increasing efficiency, increasing output, and making it easier to control oil prices. With oil running out of momentum, only certain types of hydrocarbon stocks look worth the investment.

Go long on high-yield, compounding income

One way to play stocks in this space for the long term is for their dividends. For investors with broad financial horizons, compounding passive income from oil stocks could reward where capital appreciation may falter in the shorter term. In other words, investors seeking oil companies to pad out a TFSA or RRSP should be looking for reliable income stocks with payments that are unaffected by lower oil prices.

Take high yielding companies such as **Vermilion Energy** (TSX:VET)(NYSE:VET). The company has been able to reward investors with a rich yield during periods of lower oil prices and looks set to continue doing so. Beyond pipeline stocks it's hard to find a hydrocarbon stock that has covered its payments reliably in a financial environment unconducive to the oil patch. Vermilion ticks that box, though.

Paying a dividend yield just shy of 13%, Vermilion stands out in more ways than one. Besides being a richly rewarding stock that can cover payments even during lower oil, the company is diversified across North America, Europe, and Australia. Canadian energy assets have long been held to be among the most defensive of investment choices in the North American markets, and Vermilion fits a low risk, lower oil play.

Vermilion is a satisfying well-to-customer business, with a full-cycle approach to keeping down costs and maintaining competitive production levels. The company buys, explores, develops, and manages production sites, with most of its income generated by production and sales.

Stay diversified with a renewables counter-investment

A side bet on growth in a competing sector could help to strengthen and diversify income in a basket of stocks built around passive income and steadily growing wealth generation. For example, renewables are becoming more cost efficient and look set to take over from hydrocarbon generated electricity, while electric vehicles are also a growth market.

Pairing Vermilion with a renewables stock helps to keep an energy income portfolio diversified and adds exposure to the global green energy megatrend. With the U.S. taking the top spot last year as the world's largest oil producer, Canadian oil was left somewhat in the shade. However, 2020 could be a better year for Canadian crude, with Deloitte Canada forecasting higher per barrel prices in the coming months.

TransAlta Renewables is a forward looking play in the green energy space and pays an attractive 6% yield. The company controls a set of diversified assets in the renewables sector. Its Canadian wind assets draw energy from sites in Alberta, New Brunswick, Ontario, and Quebec, while its Canadian hydro assets cover river-generated hydroelectric generation. It also owns and runs solar and gas facilities.

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