



TFSA Investors: \$10,000 in This Stock Will Pay You \$110 a Month

Description

It's natural for investors looking to add income to their portfolio to first look for the highest-yielding dividends.

High-yielding stocks and any passive income in general are great ways to boost investment returns, and add cash flow to your account to redeploy into the next great opportunity.

The trouble is finding high-yield stocks that can be reasonably expected to keep the dividend reliable while still yielding an attractive rate. It's even more difficult to find a stock that has a dividend yield above 10%.

When you do find these companies though, and you've confirmed it's a quality business that can be relied on, you've found yourself a winner.

A stock that yields 10%, will pay investors \$1,000 a year on a \$10,000 investment — a pretty attractive return.

A stock that yields more than 12% will pay investors more than \$100 a month on a \$10,000 investment — even more attractive.

It's paramount to buy these high-yielding dividend stocks in a registered account such as a TFSA. This way you can retain 100% of the money you are receiving, since you won't have to pay taxes on it.

One stock that currently yields approximately 13.3% is **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#)).

[Vermilion](#) has an interesting business with different energy assets located around the world. In total the company has business operations spanning the globe in continents such as North America, Europe, and Australia.

In North America, the company operates in four different regions. Three of the regions are located in Canada, in both Alberta and Saskatchewan. And Vermilion has a significant land position in the Powder River Basin of the United States.

In total, its North American operations make up about 60% of Vermilion's production, leaving plenty of its operating capacity to other assets around the globe, giving it plenty of diversification to help insulate its business.

Its European assets account for about 35% of Vermilion's operations and is key to the success of the company. By operating both onshore and offshore production, the company has built a strong base of operations that garner it premium commodity pricing through Brent oil prices and European natural gas pricing, which is significantly higher than in North America.

In Australia, the company owns offshore operations that also garner premium Brent oil pricing. Plus, the company has a strong connection to a lot of its key customers in the region, creating the possibility for further expansion into the region if the economics make sense.

At the moment, though, Australia is by far Vermilion's smallest operating region, as it only contributes about 5% of the company's total production.

What makes Vermilion such a great company is its self-funded growth and income model. The company's operations deliver high margins, have low decline rates, and, as a result, have strong capital efficiencies. The result of this is that each individual segment is generating its own free cash flow with either stable or growing production levels.

For a company paying a dividend as large as Vermilion's, it's important to understand its financial strength, as just one way of checking the stability of the dividend.

As of September 30, the company only had \$2 billion in net debt, giving it a net debt-to-funds from operations ratio of just 2.2 times — an extremely stable financial position.

The company is expecting to produce just over 100,000 barrels of oil equivalent per day in 2020 on a conservative capital budget of \$450 million, which is expected to bring modest year-over-year growth in its production levels.

Its total expenditures (dividends plus capital expenditures) is expected to just outpace its funds from operations in 2019 and is expected to come in just below 100% in 2020.

Although this highlights how there isn't much wiggle room in regard to its dividend, it also shows that the dividend is currently stable, and the company continues to strengthen its operations, aiming to make the dividend as reliable as possible.

The stock is trading for a steal today at a price-to-earnings ratio of just 9.4 times, or an enterprise value to EBITDA ratio of just 4.1 times.

The ultra-cheap valuation can't last forever, so investors are advised to gain some exposure soon and lock in that massive 13.3% dividend yield.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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