Lock in a Rare 13% Yield With This Cheap Canadian Oil Stock

Description

Oil investors have some tough choices to make at the moment, with long-term lower prices looking likely and headwinds in the form of a booming renewables market on the edge of cost-competitiveness plus a downturn in the global economy fed by geopolitical uncertainty.

However, Canadian energy is looking strong, especially when viewed in relation to the **TSX**. Toward the end of the week, the U.S. markets were flat, while Asian markets fell on coronavirus fears.

The TSX was up, however, continuing a positive run amid noises that a rate cut wasn't out of the question in the event of further economic weakness.

A one-off stock for oil bulls

Vermilion Energy (TSX:VET)(NYSE:VET) is a rare gem of a dividend stock that manages to pay a rich yield despite low commodity prices.

This is encouraging for a long-range investor seeking a high-yielding passive income stock that can weather an extended period of lower oil and gas prices – an outlook that's becoming increasingly likely.

Value investors following a value strategy also have a strong play for TSX oil in **Suncor Energy**. While value investing was out of fashion last year, 2020 could see that trend reversed, with some gains possible in overlooked sectors, such as energy.

With attractive multiples, Suncor is a prime Canadian energy stock ripe for strategic value investing right now.

While holding both Vermilion and Suncor in a portfolio could leave an investor open to overexposure, a well-diversified mix of stocks with low oil representation could accommodate pairing these companies.

Comparing dividends could help a passive investor looking for a rich yield make a decision: Vermilion's 13% yield overshadows Suncor's 3.8%.

An even richer yield could be on the way

A growing trend toward increasingly stringent carbon emission guidelines could increase headwinds in the oil industry, dovetailing with the rise of renewables.

The Scope 3 group features some of the biggest names among the oil company elite, namely **Shell**, **Total**, and **Repsol SA**. Scope 3 refers to a set of emissions guidelines set up to curb the worst effects of the ongoing climate crisis.

These emissions cuts could impact Canadian oil companies on a granular level. However even if direct action doesn't hamper Vermilion's bottom line, the oil and gas sector in general could see investors cooling off. The positives from this situation include deeper value in oil stocks and widening yields.

Last week, the coronavirus continued to rear its ugly head, with the potential to impact oil markets in the same way that the SARS outbreak did in 2003.

If the crackdown on air travel causes a fuel discount, energy investors could start to sell their shares in greater numbers – even if OPEC doesn't need to make a supply adjustment.

The bottom line

Investors hungry for high-yield oil stocks can lock in a 13% yield right now with Vermilion. However, for an even richer yield, TSX stock pickers could hold off and wait for a dip.

With increasing headwinds in the oil sector, investors could see even greater value for money in the coming weeks.

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vhetherington