



TFSA Investors: 1 Top Dividend Stock Can Turn \$6,000 Into \$867/Year Passive Income

Description

Dividend yields in double digits is a relatively rare phenomenon in the stock market, though not completely unheard of. Double-digit yields have a mixed effect on investors. Such yields both attract investors through sheer virtue of high returns, and they repel investors because such high yields are often masking some weaknesses in the stock, usually resulting in reduced payouts.

But **Vermilion Energy** ([TSX:VET](#)) ([NYSE:VET](#)) is a bit off from this mark. It has a monstrous yield and not a very charming track record when it comes to market value. Still, the company hasn't slashed its dividend once in the past five years. Rather, the company increased its dividend payouts twice in the past five years.

The company

Vermilion is an international [energy company](#). Primarily, the company operates in three regions: North America, Europe, and Australia. The company has its hand in gas production and oil production in both on-land and off-shore rigs in several countries. This diversified portfolio shelters the company from losses in any one avenue that the company has a stake in.

If we look at the company's market value history, the growth is certainly not reflected in those numbers. It's on a downward trend since 2014, and the stock hasn't caught a break yet. This is one of the reasons for such a monstrous yield.

Currently, the company is trading at \$18.55 per share — a long way down from its streaks in the \$70s. The price to earnings of Vermilion is 8.19, and the price to books is 1.14, which, compared to the broader sector, makes it relatively undervalued.

The dividends

Currently, the company pays monthly dividends of \$0.23 per share. This works out to a total of \$2.76

yearly dividend per share, and it's up from \$2.58 in 2015. Vermilion's dividend history started in 2003, when it paid \$0.17 per month per share. The payout itself hasn't come a very long way, but the important part is that the company didn't slash its payouts once in 18 years.

The [current yield](#) is 14.45%. If you invest \$6,000 in it today, you stand a chance of earning all your capital back in dividends in just six years. It's very rare to see this kind of dividend streak, especially in companies that offer such high yields.

If you keep reinvesting your dividends, and Vermilion keeps up its generous payouts, you might be sitting at a very sizeable nest egg in a decade or so. Alternatively, you can turn the \$6,000 investment in a passive-income stream. You will be earning a yearly income of \$867 on a minimal investment.

Foolish takeaway

Vermilion has a stable business and a very diverse portfolio, yet the company is far from what you would call profitable. Currently, the only good thing about investing in Vermilion is its yield. But if the company manages to turn things around in the future, it might turn out to be one of the most profitable investments.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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