Consider Vermilion Energy for Your Portfolio

Description

Vermilion Energy (TSX:VET) has been around for 20 years and public for 18 of them. Though it's based in Canada, Vermilion has carved out a niche amongst its mid-tier peers by focusing on international growth.

Canada's emerging global player
Vermilion isn't the biggest oil and gas company and it isn't the cheapest either, but its diverse production base, seasoned management team, and dividend growth potential offers a potent mix for owners of this stock.

Production growth looks bright for the next few years as new projects come online. Over the past 10 years, production at Vermilion has grown by an average of 6%. That growth has been geographically diverse as the company has acquired properties in Canada, France, Australia, and the Netherlands. In 2012 production grew by 7% to 37,803 barrels of oil per day and the company is looking at another 3%-7% addition for 2013. By early 2015 the company's investment in a natural gas project off the coast of Ireland should start adding to production growth, too.

Growing production isn't helpful if reserves aren't growing to support the long-term expansion of the business. In the past decade, property acquisitions and additional exploration within those properties have allowed proved and probable reserves to grow at an 8% clip. With 80% of its production — including its Netherlands gas — tied to Brent Oil prices, Vermilion has been able to grow cash flows substantially while securing production growth for the future.

Conservatively financed, employee friendly, and Foolish
The growth potential at Vermilion looks good, but more impressive is how the board and management have balanced the needs of shareholders, employees, and the citizens in its operating areas to keep all parties happy. Directors and other insiders own 7% of the shares, with CEO Lorenzo Donadeo holding a 3.6% position. As a group they have a clear interest in growing the business and keeping everybody motivated.

Shareholders have plenty to be happy about too. Vermilion has delivered solid cash flow growth, which has led to a steady appreciation in the shares. And, it has achieved this growth while returning a substantial amount of cash to shareholders.

Currently Vermilion shares yield 4.7%. Companies like **Canadian Oil Sands** (TSX:COS) and **Crescent Point Energy** (TSX:CPG) carry a yield of 7.1% each, therefore, Vermillion isn't the highest yielder in the group. However, with companies like **Canadian Natural Resources** (TSX:CNQ) and **Suncor** (TSX:SU) sporting a yield of just 1.7% and 2.6% respectively, it's not the lowest either. With more production coming online and a conservative use of debt, dividend hikes could be part of this company's future.

Foolish final thoughts
Over the long-term, provided the commodity co-operates, Vermillion shareholders are likely to be handsomely rewarded with a combination of capital gains and dividend income. A total return package from Canada's energy patch.

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The Motley Fool has no positions in the stocks mentioned above.

A version of this article, authored by Nathan Parmelee, originally appeared on Fool.com

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1. Investing

TICKERS GLOBAL

1. TSX:VET (Vermilion Energy Inc.)

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