



What to Expect When Vermilion Energy Reports This Week

Description

On Friday, **Vermilion Energy** ([TSX: VET](#))([NYSE: VET](#)) is scheduled to publish its quarterly earning results. Everything seems to be going the company's way over the past few years. With operations centered in Europe and Australia, Vermilion has largely avoided the problem plaguing North America's energy industry. Now the company is embarking upon an expansion in some of the country's hottest shale plays.

Let's review what has been happening at Vermilion over the past few weeks and what we're likely to see in this report.

Stats on Vermilion Energy

Analyst EPS Estimate	\$1.00
Year Ago EPS	\$1.06
Revenue Estimate	\$344.28M
Change From Year-Ago Revenue	16.24%

Earnings Beats in Past 4 Quarters 2

Source: Reuters

What will Vermilion deliver for shareholders this quarter?

In recent months, analysts have gotten a lot more optimistic about Vermilion's earnings. Over the past 90 days, the Street has increased its consensus earnings estimate by 25% to \$1.00 per share. The stock price has rocketed higher in lockstep, up 15% over the past three months.

The company's diversified strategy has paid off. While domestic production remains landlocked, over half of Vermilion's production fetches premium international prices thanks to its operations in Australia and Europe. This allows the firm to earn substantially more on each barrel it produces than its domestic peers.

Notably, the company is exploiting its fortunate position to fund an expansion into some of the country's prime shale plays.

In March, Vermilion agreed to acquire an unnamed private oil company for shares, cash, and debt worth \$400 million to add new production and reserves in the Southeastern Saskatchewan Bakken shale oil field. At first glance this is an attractive acquisition given the region's high netbacks on light oil, quick well payouts, low risk conventional production, and stable decline rates.

The company has been looking for opportunities to enter the Williston Basin in Saskatchewan. This area contains the northern end of the prolific Bakken and Three Forks shale fields that have made North Dakota one of the largest oil producing regions in the United States. Although not material area for Vermilion today, the company could use this acquisition as a foothold to expend further into the Bakken.

Investors will also want to watch for any updates on the company's Duvernay operations. The field stretches 100,000 kilometres in size along the eastern side of the Alberta Rockies. Some industry observers believe could hold North America's next big shale play.

Over the past few months a number of drillers have reported impressive results out of the field. Last year, one **Talisman** (TSX: TLM)(NYSE: TLM) well posted a seven-day average production rate of 2.8 million cubic feet per day, or mmcfpd, of natural gas and 730 barrels per day, or bpd, of condensate from its first well. One week after completion another nearby well produced an average of 1.6 mmcfpd of natural gas and 365 bpd of condensate.

Encana (TSX: ECA)(NYSE: ECA) has posted some spectacular numbers too. One Duvernay well had a 30-day initial production rate of 1,400 bpd of condensate and four mmcfpd of natural gas. Five months after the well was first tapped, it was still producing 350 bpd of condensate and two mmcfpd of natural gas.

Unfortunately at \$15 million per well, the economics of drilling in the Duvernay are challenging. The field *has* to produce incredible results to justify drilling at all. However, Vermilion Chief Executive Lorenzo Donadeo [is confident the industry can get costs down](#) into the \$8-10 million range through exploiting pad drilling techniques and other operational efficiencies.

Foolish bottom line

In Vermilion's upcoming report, watch the average well completion cost figure out of the Duvernay. If the industry can make the economics work, it could unlock a massive new shale field on par with the North Dakota Bakken or the Texas Eagle Ford. That would be a huge hidden catalyst for the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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