



Vermilion Energy Inc.: One Company in the Patch That Can Maintain its Dividend

Description

In stark contrast to many of its peers that have slashed their dividends because of the oil rout, **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) has committed to maintaining its dividend. In fact, since inception Vermilion has never cut its dividend. Despite this history and its commitment to maintaining its dividend, many investors are becoming increasingly cynical that it can actually do so, with many other big names having made similar pledges and then subsequently cutting theirs.

Let's take a closer look to see whether Vermilion can stick to its promise in the current operating environment.

Now what?

Since the oil rout began, Vermilion's dividend has remained unchanged, and with its share price having softened by almost 31% over the last six months, it now yields a tasty 4.8%. For the last year, it also has had a sustainable cash dividend payout ratio of 71%, indicating the dividend is sustainable.

One clear advantage that Vermilion has over many of its Canadian peers is the international composition of its oil-producing operations. Vermilion has a range of high quality light oil and liquid rich natural gas assets in Canada, Europe, and Australia.

This allows it to access Brent pricing, the international benchmark oil price. At this time, Brent trades at a 17% premium to West Texas intermediate (WTI) or the North American benchmark oil price, and I expect this premium to remain in the double digits for some time. Despite U.S. rig counts continuing to fall and capital expenditures among shale oil producers declining significantly, U.S. light sweet crude production continues to grow. This now sees U.S. oil inventories at their highest level in years, applying considerable pressure to the price of WTI.

Such a high return from its international operations, which make up 51% of its total crude production, gives it a financial edge over its peers operating solely in North America. This sees Vermilion generating higher margins or netbacks per barrel of crude produced than many of its North American peers.

Furthermore, despite cutting its 2015 capital expenditures by 40% compared to 2014, its 2015 oil production will grow by between 11-15%. This, in conjunction with significantly lower capital expenditures, will help to boost cash flow to compensate for lower crude prices.

So what?

Vermilion's portfolio of international oil assets gives investors a degree of commodity diversification that the majority of other Canadian oil companies are not capable of offering. These assets also give it a financial edge over its North American-based peers that will assist it with maintaining its dividend as pledged.

When combined with the considerable operational flexibility that its liquid balance sheet and low degree of leverage offer, with net-debt a mere 1.6 times cash flow, it is well positioned to weather the current storm. This, in conjunction with its juicy 4.8% yield, makes it a worthwhile addition to any portfolio for investors seeking exposure to crude.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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