



Vermilion Energy Inc.: 1 Oil Company That Has Yet to Slash its Dividend

Description

The oil rout has hit the energy patch hard, forcing energy companies to slash capital spending and their dividends. Even the vaunted dividend machine **Crescent Point Energy Corp.** slashed its dividend by over half earlier this year. The increasingly pessimistic outlook for crude continues to weigh heavily on the fortunes of many energy stocks.

However, there is one energy stock that stands out as an opportunity despite the harsh operating environment: **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)).

Let me explain.

Now what?

Vermilion operates a globally diverse portfolio of oil and natural gas assets across western Canada, the U.S., Germany, France, the Netherlands, and Australia with oil reserves of 222 million barrels. With a large amount of its oil production located outside of North America, Vermilion is able to obtain Brent pricing for about a third of its oil output.

As a result, it has an important advantage over many of its peers that operate solely in North America because Brent, the international benchmark price, trades at an 8% premium to WTI, the North American benchmark.

This, in conjunction with its aggressive hedging program, has allowed Vermilion to remain profitable in a harsh operating environment that has sharply impacted the cash flow and profitability of a number of other energy companies.

In fact, if we look at Vermilion's netback per barrel, a key measure of operational profitability, it is possible to see that it has performed better than many of its peers. For the second quarter Vermilion reported a netback of \$36.89 per barrel, an impressive feat with oil trading at an average of US\$53.97 per barrel for that period. As a result, Vermilion reported net earnings of \$0.06 per share, or more than six times the previous quarter.

It is these strong results that make Vermilion one of the very few upstream oil companies that has yet to cut its dividend, despite the difficult operating environment. This allows it to pay a very juicy dividend of almost 6%, and, more importantly, there are signs that this dividend can be sustained for at least the foreseeable future.

This is because for the first six months of 2015 the dividend represented 56% of operating cash flow, leaving plenty of fat to absorb lower crude prices. On top of this, Vermilion has said that it remains committed to maintaining its dividend even if crude falls lower, with further reductions in capital spending being its primary means of doing so.

Another important aspect of Vermilion's finances is that its balance sheet remains in good shape. It has a high degree of liquidity with \$98 million of cash on hand and \$800 million remaining undrawn on a revolving credit facility that doesn't mature until May 2019. This endows Vermilion with a considerable amount of financial flexibility and the ability to weather the current harsh operating environment until oil finally rebounds.

So what?

With a tasty 6% dividend yield and signs that it can sustain its dividend despite the current operating environment, Vermilion is an attractive buy for any income-hungry investor willing to make a bet on higher oil prices. While such an investment is not risk free, the quality of Vermilion's oil assets, its ability to access premium Brent pricing, and the strength of its balance sheet all hold it in good stead.

CATEGORY

1. Energy Stocks
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1. Editor's Choice

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

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