Now Is the Time to Buy Vermilion Energy Inc.

Description

It has been a tough year for energy investors, but the recent rally in crude has created a glimmer of hope for the beleaguered energy patch. One of the best ways to play the rebound in crude is with globally diversified oil and gas producer **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET).

Let me explain.

Now what?

Vermilion has a high-quality globally diversified asset base with operations in Western Europe, Canada, the U.S., and Australia. The recent weakness in the loonie has been a boon for Vermilion because it incurs costs in loonies but generates revenue in U.S. dollars.

It has also helped to give Vermilion some particularly low variable or cash costs of around US$15 per barrel, which is significantly lower than many of its Canadian-based peers. This is less than half the current price for crude and indicates that Vermilion's operations remain cash flow positive, even in the harsh operating environment now being experienced.

More impressively, despite slashing 2015 capital expenditures by 22% compared with 2014, Vermilion's oil production grew by an impressive 11%, and the company expects this growth to continue in 2016, even after cutting expenditures yet again.

Another advantage that Vermilion has over its peers operating solely in North America is that its international operations allow it to access Brent pricing for crude. Brent is the international benchmark oil price and typically trades at a premium to West Texas Intermediate, which at this time amounts to 6%.

In an operating environment dominated by sharply weaker prices, every additional dollar of revenue earned is particularly important.

However, the company does expect is cash flow from operations to fall in 2016 because of weak oil prices. Nonetheless, it does appear that this drop in cash flow will not apply any significant pressure to the company, and this can be explained by its solid balance sheet. Vermilion remains well within its financial covenants with total debt only 2.2 times earnings before interest, tax, depreciation and amortization.

The strength of Vermilion's business can be seen by the fact that it is one of the few upstream oil companies that has not cut its dividend since oil prices collapsed. In fact, its dividend has not been cut since Vermilion commenced monthly dividend payments in 2003, and it has been increased three times over that period, giving it a juicy 6% yield.

The dividend also appears safe for the time being, despite Vermilion predicting that operational cash flow will fall again for 2016. Even if cash flow falls by 36%, the dividend payment only represents around 85% of operational cash flow.

Then there is the solid balance sheet and Vermilion's high degree of liquidity to consider; it has almost $47 million in cash on hand and $400 million available through a revolving credit facility. This will certainly see it through the current operating environment and, along with its ability to cost effectively boost production, leaves it well positioned to take advantage of higher oil prices.

So what?

Vermilion is one of the best ways to play the long-awaited rebound in crude. Not only does it have a solid balance sheet, ample liquidity, and the ability to obtain premium Brent pricing, but the resilience of its business means that it hasn't had to cut its dividend. With crude now rallying, now is the time to add Vermilion to your portfolio.

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1. Dividend Stocks
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1. Editor's Choice

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2. TSX:VET (Vermilion Energy Inc.)

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