3 Reasons to Buy Vermilion Energy Inc. Despite Weak Crude

Description

The outlook for crude had become increasingly difficult to predict as the prices of West Texas Intermediate and Brent have been gyrating wildly in recent months. Nonetheless, while sharply weak oil prices may now be the new normal, for the immediate future at least, investors should not be deterred from investing in energy stocks.

One upstream oil and gas producer that stands out for all the right reasons is **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET).

Unlike the majority of its peers, Vermilion hasn't reduced its dividend, despite moving to shore up its balance sheet and cash flows to weather the current operating environment. This highlights the strength of its financial position and the quality of its assets, making it one of the few energy companies that is attractive to acquire at this time.

Now what?

Firstly, despite slashing capital expenditures (particularly, for exploration and well development), Vermilion's production continues to grow.

For the second quarter total production shot up by an impressive 24% year over year, even after Vermilion reduced capital expenditures by 20%. This is in contrast to troubled oil producers **Penn West Petroleum Ltd.** and **Baytex Energy Corp.,** which have experienced considerable reductions in production after sharply cutting investment in their operations in order to survive the protracted slump in crude.

Secondly, Vermilion maintains a solid balance sheet, which has allowed it to leave its dividend untouched and survive the slump in crude in good shape. This can be attributed to the company's conservative approach to managing debt, which helped it enter the oil slump in solid financial shape.

In fact, not only are its financial covenants, including debt to EBITDA and senior debt to total capitalization, well within limits, but net debt only amounts to 3.2 times its funds flow from operations.

Finally, operating expenses continue to fall.

This attribute is especially important in the difficult operating environment because it helps to boost margins and cash flow. For the second quarter Vermilion's operating expenses per barrel fell by 6% year over year, while transportation costs were down by 4% for the same period.

As a result, Vermilion had a second-quarter operating netback of $23.96 per barrel. Despite being lower than the same quarter in 2015, this was an impressive achievement considering that the average quarterly price for West Texas Intermediate was US$45.59 per barrel, or 21% lower than it had been a year earlier. This is particularly important because it highlights that Vermilion's operations remain cash flow positive even with crude trading well below US$50 per barrel.

So what?

Vermilion will not only weather the harsh operating environment, but when oil prices eventually rebound it will emerge in better shape because it has been able to make its operations more efficient while expanding its production. Vermilion has been able to make its operations more efficient and significantly cut costs in order to maintain its solid balance sheet while still expanding its production.

Accordingly, as the price of crude appreciates, which will eventually occur when the global economy picks up, Vermilion's profitability will grow rapidly, giving its bottom line a healthy bump. This will cause its share price to rise sharply, making it one of the best ways to gain leveraged exposure to oil.

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2. TSX:VET (Vermilion Energy Inc.)

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