Vermilion Energy Inc. Is Quietly Plugging Along

Description

Editor's note: A previous version of this article incorrectly stated that Vermilion pays a quarterly dividend. Its dividend is monthly. We regret the error.

Vermilion Energy Inc. (TSX:VET)(NYSE:VET) is a mid-cap oil and gas producer that hasn't received all of the plaudits it deserves despite offering a decent yield and surviving the oil downturn quite well.

The Calgary-based company has been able to pay its dividend without ever reducing it despite the two tough years for oil which began in 2014. Vermilion Energy has managed to generate strong cash flows that are larger than capital expenditures over that span with a market cap of $6.53 billion.

CEO Anthony Marino noted that part of the company's success come from the fact that service costs have been lower in recent times, while its operations have been especially efficient thanks to improved fracking techniques that have kept the company afloat. Additionally, Vermilion Energy has used new chemical programs in operations and other advanced techniques to increase output while decreasing the intensity necessary to complete operations.

About half of the company's operations are oil related, while the rest are gas related. Shareholders have been reveling in the company's strong dividend yield. Vermilion Energy recently announced a monthly dividend of approximately 21.5 cents per share, amounting to 86 cents per share annualized. This amounts to an above-average dividend yield of more than 4.5% that will be payable to shareholders on Feb. 15 who are on record as of Jan. 24.

The company recently completed the acquisition of German assets from **Engie E&P Deutschland**, amounting to 33 million euros (about $46.11 million) with adjustments for cash flows between the effective date and closing date, lowering this figure to 28.3 million euros ($39.55 million). The move was completed on Jan. 1, and it includes five oil- and three gas-producing fields.

The assets amounted to an average of 2,000 barrels of oil per day until October. About 51% of thiswas oil. Vermilion Energy plans on increasing production by nearly 10% next year based on budgeted capital investment of 3.6 million euros ($5.03 million). The company predicts that these assets willresult in a cash flow increase of $24.9 million in 2017.

The move marks Vermilion Energy's commitment to increase profitability while keeping costs at bay, and it also signals the company's expansion in Europe. With most assets in Canada as well as several in the U.S., Ireland, Australia, and France, the driller already has a presence in Europe and elsewhere. However, the acquisition of German assets marks the company's first foray into Germany in the form of producing properties.

The company says it hopes to advance the exploration and production of oil and natural gas in Germany, offering a welcome boost to the economy in the country and the rest of the European Union, while simultaneously improving its balance sheet and reducing debt.

VET stock recovered greatly in 2016 following the oil downturn, growing 50.2% over the course of the calendar year. Analysts give the stock an average rating of a "Buy" from 13 investment firms covering it to go along with a consensus price target of $58.

Vermilion Energy has flown under the radar for a while, but those paying attention have been able to cash in on this company. With a strong dividend yield and a steady expansion overseas fueling the company, it would be wise to invest in it now.

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