



## Income Investors: This Energy Stud Has Paid 168 Consecutive Dividends

### Description

After more than a decade of strong crude oil prices, the wheels fell off the energy sector in 2014. Former dividend stalwarts first cut their payouts and then eliminated them completely when it became obvious oil was not about to come roaring back.

Income investors reacted in a couple of predictable ways. Many said “adios” to the sector altogether, vowing to never buy another energy stock ever again. Others realized there was still value in having exposure to the sector, so they cycled into large integrated oil companies — the names we’ve all heard of.

But amid the chaos and carnage, there emerged a small number of energy producers who managed maintain those generous payouts. These companies have become kings of a the new energy sector, a place where balance sheets are still scary, production could still decrease, and every company is still terrified crude will trade in the \$30s once again.

**Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) is the best of this new generation. Here’s why.

### Low-cost production

Vermilion did something many other energy producers thought was unwise, at least back when crude prices were significantly stronger. It focused its efforts on finding low-cost oil all around the world.

It currently has production in Canada, the United States, Ireland, France, Netherlands, Germany, and Australia. Canada and France accounted for more than half of the company’s 63,596 barrels per day of output in its most recent quarter.

This low-cost strategy is now paying off big time. In its most recent quarter, Vermilion posted an operating netback of \$27.88 per barrel, which is among the best of its peer group. Only about a third of all production was hedged.

### Solid growth

Output will continue to grow over the next few years. This year's production is expected to hit 70,000 barrels per day, while 2018 should see at least 75,000 barrels per day leave the ground.

Vermilion expects to fund all growth internally without taking on a nickel of additional debt. The capital expenditure budget for 2017 is \$295 million, while fund flows from operations will flirt with \$700 million if the price of oil stays above US\$50.

Or, to put it another way, Vermilion trades at approximately 14 times next year's free cash flow, even if oil stays at today's levels. That's a downright reasonable valuation with plenty of upside if crude cooperates.

### **Gushing dividends**

Vermilion has paid a monthly dividend since 2003. It began by paying \$0.17 per share each month, increasing the payout to \$0.19 in 2008. In 2013 the dividend increased to \$0.20, and then the company raised it to \$0.215 monthly in 2014. That's where it sits today — good enough for a 4.7% yield.

The dividend appears to be rock solid too. Final numbers aren't in yet, but it looks as though Vermilion will pay about \$100 million to shareholders in 2016. It should do more than \$200 million in free cash flow for the year. That's a very manageable payout ratio.

Keep in mind, there is a little dilution happening because so many Vermilion investors are participating in the company's dividend-reinvestment plan, which gives investors a 2% discount if they take their dividends in the form of new shares.

### **The bottom line**

There are very few energy companies that can brag about maintaining their dividends through the recent crisis. Vermilion is in elite company because it focused on low-cost production and it took a prudent expansion approach.

Not only are investors getting a 4.7% yield to wait, Vermilion also offers plenty of potential exposure to higher oil prices. If crude races ahead and touches US\$60 or even US\$70 in 2017, shareholders who get in today will be very happy. The sweet yield is just a bonus.

### **CATEGORY**

1. Dividend Stocks
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### **TICKERS GLOBAL**

1. NYSE:VET (Vermilion Energy)
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