Why I'm Using the Oil Sell-Off to Buy This High-Yielding Stock

Description

After last week's surprise build in U.S. inventories, crude oil is once again trading below $50/bbl. This is great news for those looking to gain exposure to some of Canada's best oil names at cheap valuations. One such company, which happens to be my favourite pick of the sector, is **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET).

Strong 2016 results

Vermilion delivered excellent results for FY 2016, even though average WTI reference prices were roughly $43.32/bbl compared to $48.80/bbl. As per official filings, 2016 production volumes increased by 16% to 63,256 boe/d at the upper end of its guidance of 63,500 boe/d. Furthermore, the increase in production was achieved while reducing capital spending on exploration and developmental projects by 50% from the year prior.

On the reserve side of things, proved reserves increased 9% to 175.8 million boe, while total proved plus probable reserves increased 11% to 290.1 million boe.

Stable dividend

Despite the sluggish commodity landscape in 2016, Vermilion paid cash dividends per share of $0.645 for a very manageable payout ratio of 70% of funds flow from operations. Moreover, if you had any doubts about Vermilion's ability to sustain its 5% yield in the event of oil prices revisiting $40/bbl, have no fear: the company has never once cut its dividend since it was first introduced in 2003.

In other words, for Vermilion, the dividend has always been taken into consideration when it comes to capital-spending decisions, and management has reiterated its commitment to maintain the generous payout no matter the realized oil price.

International growth and capital efficiency add to the bull thesis

Finally, Vermilion has always delivered operational excellence. For example, Vermilion increased its proven developed and producing reserves by 11% in 2016, while delivering a sector-leading 4.1

reserve ratio. Moreover, I expect this operational excellence to continue as Vermilion increases its presence in Europe, where the company recently completed additional wells in France and the Netherlands, while partnering with major E&P players in Eastern Europe.

And if oil continues to sell off?

Now, I know what you’re thinking: what if oil goes back to $40 (or worse)? Well, as previously mentioned, Vermilion has never cut its dividend, and its hefty payout survived the worst of the oil route in 2016. But if you like to hedge your investments, then why not complement Vermilion with a stock that benefits from lower oil prices. One such name would be gas station operator **Alimentation Couche Tard Inc.** (TSX:ATD.B), whose margins will increase with lower oil.

In a nutshell, the recent oil sell-off has presented some great buying opportunities for quality Canadian oil names. With excellent results in 2016, and a dividend which has made it out of the wringer intact, why not take advantage of the market’s overreaction and snatch up Vermilion at a sizable discount?

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Date
2025/08/17
Date Created
2017/03/14

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