Veresen Inc. Is up Over 37% This Year: Is it Still a Good Buy?

Description

Veresen Inc. (TSX:VSN) has been quietly outperforming the TSX this year by wide margins, with shareholders seeing year-to-date returns of over 37%. Up until earlier this year, the stock looked to be on a persistent decline and resembled many other troubled oil and gas stocks on the TSX.

What caused the jump in share price?

In May, **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) announced that it would be purchasing Veresen in a friendly takeover as it believed the acquisition would strengthen the two companies by combining complementary, yet different operations. Pembina's CEO highlighted this fact when he said, "We are predominantly a liquids company; Veresen is predominantly a gas company. And I think that is the magic."

The $9.7 billion deal resulted in Veresen's stock price soaring almost 20% in one day. However, since that time the stock has been flat and even saw a dip before climbing back up. Now that the excitement from the transaction has passed, let's take a closer look if Veresen itself is good investment today.

A look at the company's financial performance

In its most recent quarter, the company posted favourable results. Its distributable cash reached $100 million, which was up from the $94 million it accumulated in the prior year. Veresen also increased the guidance for distributable cash for the remainder of the year, as it expects to see stronger margins and an overall improvement in its operations.

In addition, Veresen saw strong growth it its cash flow from operations, which was up 30% from the prior year, while free cash of $73 million was more than double last year's $32 million. Despite a low price of oil, the company has been able to maintain positive free cash flow in each of the past five quarters, and in four years it has grown 136%.

Current stock valuation

In the past four quarters, Veresen's earnings per share have totaled $0.52, and the share price currently trades at a multiple of about 34 times that amount. The stock also trades 2.5 times its book value, suggesting that combined with the high earnings multiple the share price might be a bit expensive at $18.

However, it appears unlikely the stock will have much downside in price, because since the Pembina acquisition, the share price has had support at about $17.30. Although it has had some momentum recently with the stock price rising 3% in the past few weeks, it's equally unlikely the stock will be able to see much upside either as it has also run into resistance at around $18.65.

Is the stock a buy?

The stock has an expensive valuation and looks to be stuck in a range without any clear direction of where it might ultimately go. For value investors, there is not much to get excited about, and I don't see much growth unless oil prices find some upward movement. However, for dividend investors, the company offers an attractive 5.5% yield that is paid in monthly installments, and given the low volatility in its share price the past several months, the stock might be a good place to park your investment dollars.

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