Is This Driller Canada’s Best Oil Stock?

Description

While oil has rallied substantially since the end of 2017, energy stocks have failed to keep pace. The international benchmark Brent has risen by almost 19% over the last year, whereas **Vermilion Energy Inc.’s** (TSX:VET)(NYSE:VET) stock has plunged by 17%. This has left what could be considered one of Canada’s best energy stocks attractively valued for investors seeking levered exposure to oil.

Along with the increasingly optimistic outlook for crude and growing consumption of oil, which has seen one of the world’s largest oil storage facilities drained dry, now is the time to buy Vermilion.

Now what?

Vermilion owns and operates a geographically diversified portfolio of oil and gas properties in North America, Europe, and Australia that, collectively, held proven and probable oil reserves of 298.5 million barrels at the end of 2017. This represented a 3% increase compared to 2016. These reserves are weighted 29% to Brent light crude, 15% to North American light crude, 12% to natural gas liquids, 19% to European natural gas, and 25% to North American natural gas.

For 2017, Vermilion reported a 7% year-over-year increase in oil production with it reaching a record level in the fourth quarter of 72,821 barrels daily, with 41% of its average daily production for the year weighted to oil. Funds flow from operations for 2017 grew by a healthy 18% compared to a year earlier, and net income came in at $62 million — a vast improvement over the net loss of 160 million reported for 2016.

Vermilion’s netback per barrel of oil produced, an important measure of operational profitability, was $29.24 — a $2.18 increase over a year earlier.

Higher crude coupled with 2018 production expected to grow by 12% year over year and lower costs will give Vermilion’s earnings a solid lift, which should see its stock appreciate over the course of the year.

The driller has also maintained a solid balance sheet with management taking a sensible approach to deploying capital and working to reduce debt. Vermilion finished 2017 with net of $1.4 billion, which is a manageable 2.3 times funds flow from operations. As earnings and free cash flow grow because of higher oil, Vermilion will be in a position to not only boost spending on developing its oil and gas assets but also further reduce its debt.

Such a solid balance sheet meant that Vermilion could weather the prolonged slump in crude that commenced in late 2014 and also allowed it, unlike many of its peers, to maintain its dividend.

In fact, because of the improving outlook for crude and its strong fourth quarter, Vermilion hiked its monthly dividend by 7% to $0.23 per share. That will see patient investors enjoy a sustainable and juicy yield of just over 6%, while they wait for Vermilion's shares to rise in value.

So what?

Even though Vermilion possesses high-quality assets and a healthy balance sheet, and consistently reports strong operational results, it is under-recognized by investors. This is also despite the driller being one of the very few energy companies that maintained its dividend after oil entered a prolonged slump. For the reasons discussed, Vermilion shapes up as one of the best energy stocks available for Canadian investors, and its stock will soar as the price of crude rises.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2018/03/07
Author
mattdsmith