
# Is 1 of the Best Energy Stocks for Dividends on Sale?

## Description

**Vermilion Energy** (TSX:VET)(NYSE:VET) is one of the best energy stocks to own for dividends. The stock has sustained and in fact, has increased its dividend per share by about 35% since 2003. Although, on a yearly basis, that only comes out to an increase of 2%, it's important to note that Vermilion offers a sustainable high yield of 6.3% right now.



Thanks to the volatility of the underlying commodity prices, Vermilion Energy's stock is volatile, too. Investors can benefit by aiming to buy a volatile stock, such as Vermilion Energy, that is able to sustain its dividend on dips to target a higher initial yield.

Vermilion Energy stock just dipped about 11% from its July high. Is the stock on sale?

First, let's review its recent results.

**Vermilion Energy's Q2 results**

During the quarter, Vermilion Energy successfully acquired Spartan Energy by issuing $1.2 billion of common stock at $44.30 per share. The acquisition, along with the production increase from the drilling program in Q1, boosted Q2's production by about 15% to 80,625 barrels of oil equivalent per day (boe/d) compared to Q1.

Fund flows from operations (FFO) in Q2 increased roughly 23% compared to Q1, thanks to higher production volumes and higher commodity prices, but no thanks to the drag from hedging losses.

Here are some key metrics compared to the same period in 2017:

| | Q2 2017 | Q2 2018 | Change |
|---|---|---|---|
| Total production | 67,240 boe/d | 80,625 boe/d | 19.9% |
| FFO | $147,123,000 | $192,990,000 | 31.2% |
| FFO per diluted share | $1.20 | $1.41 | 17.5% |
| Capital spending | $58,875,000 | $80,129,000 | 36.1% |
| Dividends declared | $77,858,000 | $98,604,000 | 26.6% |
| Payout of FFO | 75% | 84% | – |

**Will more capital spending this year put the dividend in jeopardy?**

Vermilion Energy’s capital budget for this year is estimated to increase $70 million to $500 million. The increase has largely to do with management’s decision to accelerate the two-well drilling campaign in Australia from 2019 to Q4 2018. Although this won’t contribute to Vermilion Energy’s 2018 production, it’s estimated to save about $12 million compared to drilling in 2019.



More capital spending this year should lead to lower capital spending next year, because the Australian drilling campaign was originally planned for next year.

Even with the increased capital spending this year, Vermilion Energy estimates its FFO to cover both its capital spending and its dividend with a payout ratio of about 90%. So, Vermilion Energy’s dividend yield of about 6.3% should be safe.

**Investor takeaway**

Vermilion Energy enjoys premium pricing from its overseas operations, which produce Brent oil and European gas. These operations account for about 43% of its production, about 52% of its FFO, and about 62% of its free cash flow contribution this year.

At the recent quotation of roughly $43.50 per share, the quality energy stock offers a juicy 6.3% yield, which will help tremendously with total returns. With a sustainable payout ratio, Vermilion Energy should be able to maintain its dividend. Interested investors should consider beginning to scale into the stock in the low $40s.

The analyst consensus from **Thomson Reuters** has a 12-month target of $56.90 per share on the stock, which represents almost 31% near-term upside potential.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**POST TAG**

1. Editor's Choice

**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

**Tags**

1. Editor's Choice



**Date**
2025/07/21
**Date Created**
2018/08/06
**Author**
kayng