



Now Is the Time to Buy This 8% Yield

Description

Oil has [rallied](#) more substantially than many analysts anticipated to see the international benchmark Brent to be trading at over US\$67 per barrel and up by 25% year to date. There are signs that oil will remain firm for the foreseeable future, making international diversified upstream oil producer **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)), which has gained 17%, an [attractive stock](#) to buy.

Quality oil assets

The driller has been assessed to have proven and probable oil reserves of 488 million barrels, which represents a 63% increase over 2017. Those reserves have been independently calculated to have a net present value after tax and the application of a 10% discount rate in accordance with industry methodology of \$6.8 billion. After deducting net debt, this comes to \$31 per share, or 7% less than Vermilion's current market price.

There is every likelihood that their value will expand over the coming year not only because of additions through acquisitions and exploration activities, but also because their net present value was calculated using an assumed Brent price of US\$63.25 per barrel for 2019, which is below the current spot price.

While the value of an oil company's reserves are a good indication of its underlying fundamental value, it is the ability to grow liquids weighted production that's crucial to generating cash flow, especially in the current environment that sees price firming.

Growing production

For 2018, Vermilion reported that its production averaged 87,270 barrels daily, a 28% increase year over year. The driller has forecast 2019 output of 101,000 to 106,000 barrels daily, which at its midpoint represents an 18% increase over 2018. Vermilion has also forecast that it will drill 30 more net wells during 2019, which will support further reserves and production growth.

In an environment where Brent is headed to over US\$70 or more per barrel, this bodes well for further earnings growth, especially when the operational profitability of Vermilion's assets are considered. During 2018, the driller reported an operating netback of \$31.59 per barrel of oil equivalent produced, 8% greater than 2017. While oil has softened since the end of 2018, Vermilion's oil assets remain profitable because of their low decline rates and relatively low transportation as well as operating expenses.

The driller expects to be able to fully fund exploration and development capex as well as its dividend if Brent averages around US\$65 a barrel during 2019. Given that the international benchmark is trading above this price and there are signs it will move higher, this bodes well for the sustainability of Vermilion's dividend, which currently yields a very juicy 8%.

Is it time to buy Vermilion?

There is every sign that a combination of firmer than expected demand, ongoing production constrains and falling global oil inventories will support higher crude prices. This bodes well for Vermilion because it will not only ensure the sustainability of that tasty 8% plus yield, but also allow it to fund further investment in developing its existing petroleum acreage while causing the value of its oil reserves to expand. For these reasons, there is every indication that Vermilion will rally further over the remainder of 2019, making it an ideal combination of income and growth for investors seeking exposure to crude.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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

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