This CEO Just Proclaimed His Company's 10% Yield Is Safe

Description

Vermilion Energy (TSX:VET)(NYSE:VET) has long been a favourite energy stock for many investors, primarily driven by its great dividend.

Unlike most other players in the energy space, Vermilion didn't cut its payout as the sector continued to decline. In fact, the company went one step further and increased its payout in 2018, upping the monthly payment from $0.215 per share to $0.23 per share. That was just the latest dividend raise from a company with a demonstrated history of increasing its payout over time; Vermilion has hiked its dividend four times since 2003.

Despite this history, investors are starting to get a little squeamish about Vermilion's payout today. The stock price has slowly meandered lower over the last 52 weeks, falling 40% from highs set back in July 2018. Weaker crude oil prices have hurt the company, and the market wasn't exactly in love with its acquisition of Spartan Energy either, which bolstered operations in Saskatchewan.

Despite analysts saying the dividend is safe, the company is under attack from energy bears who say the payout must be cut. These folks are causing dividend investors to get nervous and sell their shares, which is adding to the downside pressure.

Investors who are able to see past these short-term issues today are getting the opportunity to load up on a great company at a cheap price. And, perhaps most importantly, they're able to lock in one of the TSX's best yields — a payout the CEO recently confirmed was safe.

Confidence in the yield

Vermilion's CEO Anthony Marino recently appeared on *Business News Network*, where he was asked directly about the company's dividend. Marino didn't mince words.

"We agree [with an analyst's call that the dividend is sustainable]. It is frustrating really to see us at a 10% yield. We don't seek to be a high-yield issue; we want to be a low-yield issue with stable dividends over the short to medium term and perhaps increasing dividends or greater returns of capital over the longer term."

Does this sound like a CEO that knows a generous dividend is about to be cut? I sure don't think so.

Marino went on to further say, "we think that in combination with the growth rate on a per-share basis that the company has, it is quite an extraordinary high yield right now."

Vermilion has been a growth machine over the last seven years, increasing production from just over 30,000 barrels of oil per day in 2012 to an estimate of 105,000 barrels per day in 2019. And remember, the company has production all over the world, including in Alberta, Saskatchewan, the United States, across Europe, and into Australia. About 60% of 2019's expected production will come out of North America, 33% from Europe, and the rest from Australia.

Assuming crude oil stays around today's price, Vermilion should generate approximately $1 billion in funds from operations in 2019. It plans to spend some $500 million on capital expenditures. That leaves us with free cash flow in the $500 million range, or about $3 per share. The dividend checks in at $2.76 per share, giving the company enough wiggle room to pay investors and fund its growth.

So, don't fret, dividend investors. Vermilion's 10% yield is safe. This could change if the price of crude falls again, but if you're an oil bull, it's pretty simple. Now is the time to buy.

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