



Buy Vermilion Energy (TSX:VET) Today and Lock In a Monster 14% Dividend Yield

Description

Oil continues to whipsaw wildly, as global energy markets react to a mix of good and bad news regarding the outlook for the fossil fuel. Over recent weeks, the North American benchmark West Texas Intermediate (WTI) has gained around 28% since the end of 2018, which has helped to lift energy stocks. There are signs that firmer crude is here to stay, making now the time to bolster your exposure to oil stocks. An energy stock that has been punished by the market, despite oil's latest rally, is **Vermilion Energy** ([TSX:VET](#)). It has lost a whopping 31% since the start of 2019 compared to the North American benchmark West Texas Intermediate (WTI) gaining 26%. Vermilion is paying a dividend with a monster 14% yield, making now the time to buy.

Sustainable dividend

While there are fears that such a large yield indicates a dividend cut is on the way, the payment appears sustainable at this time, and management has reassured the market that it has no intentions of cutting the dividend. Vermilion expects to have a total payout ratio of just over 100% after including dividend payments and capital expenditures for 2019 if Brent averages US\$63.24 per barrel and WTI averages US\$56.19. That appears achievable, because Brent has averaged US\$64 a barrel since the start of the year, whereas for WTI it is US\$57.

Vermilion finished the third quarter 2019 with a solid balance sheet, holding \$10 million in cash and \$2.7 billion of liabilities when including long-term debt, leases, and asset retirement obligations, which is a manageable three times funds from operations (FFO). Based on trailing 12 months of FFO, the dividend has a payout ratio of FFO per diluted share of 47%, further indicating that it is sustainable, especially when it is considered that Vermilion can dial down capital expenditures if required.

Earnings and FFO will continue to grow as oil rises in value and Vermilion expands its production, which, for the third quarter 2019, expanded by 1.1% year over year to 97,239 barrels daily. That will lead to not only a lower payout ratio but also reduce the debt-to-FFO ratio to a more conservative level. For these reasons, the dividend appears sustainable at this time, but Vermilion could be forced to cut

the payment if [oil prices collapse](#), as some analysts have predicted for 2020.

Vermilion's strengths lie in its internationally diversified portfolio of oil properties, which allows it to access premium international Brent pricing, giving it a financial advantage over its peers operating solely in North America. While the price differential between Brent and WTI has closed, it is still US\$5.50 per barrel, giving those drillers that can access international oil prices a handy financial advantage.

The driller is also very [attractively valued](#) when it is considered that it is trading at a deep 35% discount to its after-tax net asset value, after deducting of long-term debt, leases and decommissioning liabilities, of \$26.74 per share. That highlights the considerable upside available, especially if oil continues to firm.

Foolish takeaway

Vermilion remains a top pick for investors seeking to bolster their exposure to oil and profit from the latest oil rally. While no energy investment is risk free, particularly in the current environment, Vermilion's quality assets, solid balance sheet, growing production, and higher earnings bode well for its outlook. For those reasons, now is the time to buy Vermilion and lock in that 14% dividend yield.

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