Canadians: This 1 Stock Has a 14% Dividend Yield!

**Description**

**Vermilion** (TSX:VET) is engaged in the exploration, development, acquisition and production of crude oil and natural gas. The company has operations in North America, Europe and Australia.

The company reports a market capitalization of $3.06 billion with a 52-week high of $36.83 and a 52-week low of $17.13. At current prices, Vermilion has a dividend yield of 14.02%.



## An interpretation of the numbers

For the nine months ended September 30, 2019, the company reports a mediocre balance sheet with $1.7 billion in negative retained earnings, down from negative retained earnings of $1.4 billion the prior year.

This is not a good sign, however, as it indicates the company has experienced more years of cumulative net loss than net income. Despite this, the company's negative retained earnings are low compared to other oil and gas companies, which eases my concerns.

Total assets are down $310 million driven by a $240 million reduction in capital assets (PP&E). Total liabilities are down slightly by $28 million driven by a reduction in accounts payable and accrued liabilities by $139 million. Vermilion's balance sheet is solid overall.

The company reports increased revenues from petroleum and natural gas sales from $1.22 billion to $1.30 billion, which is a good sign. Vermilion also sold $146 million of purchased commodities which were expensed by the same amount.

This suggests the commodities were sold at cost and could suggest physical delivery contracts the company needed to fulfill. After-tax income of $31 million is up from a $52 million net loss in 2018.

Cash flow statement is strong, with cash from operations of $603 million, which is down from $637 million the prior year. Overall capital expenditure spending is down from $308 million in 2018 to $29 million in 2019, suggesting that senior management is keen on conserving cash.

The company paid out $294 million in dividends so far in 2019. Senior management indicates that the dividend payments will remain unchanged through 2020. Fellow Fool Mat Litalien raises good points on this subject.

## But wait, there's more

Looking at the company's notes to its financials indicate a couple of important items.

First, the company has credit facilities totaling $2.1 billion, of which $1.56 billion in drawn as at September 30, 2019. This represent a utilization rate of 74%, which is high but acceptable. The company is obligated to meet financial covenants as part of the agreement for the credit facilities.

Vermilion is in compliance with all covenants, a good sign for investors as it indicates sufficient ability to repay its debt obligations.



Second, the company derives the majority of its revenues from crude oil and condensate sales (76%) followed by natural gas sales (20%).

Despite the slump in natural gas prices, the company's revenues increased year over year due to the effects of Alberta's curtailment policies coupled with Vermilion's exposure to global markets. The company generates crude oil and condensate sales from Canada, France, Australia and the United States.

## Foolish takeaway

Investors looking to diversify their portfolio and purchase shares of an oil and gas company should consider buying shares of Vermilion. Despite the company's negative retained earnings, its financial statements are in much better position than many of its peers in the oil and gas industry.

Further, the company is continuing to generate solid cash flows from operations and its credit facilities remain 26% unutilized. As an added bonus, its current dividend yield is 14%.

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