1 Cheap Energy Stock That Sank From $14 to $4 in March

Description

The Canadian S&P/TSX Composite dropped more than 30% in March while witnessing the largest one-day drop of 12% of the last 80 years.

The market crashed with a dual blow of the oil crisis and the COVID-19 pandemic. The crash has set off a prolonged bear market phase, with stalled economic activity all around the world.

Vermilion Energy (TSX:VET)(NYSE:VET) is among the many casualties of this market crash. This Calgary-based oil and gas production company has lost around 70% of its stock price in March alone.

Let's try to understand what happened to Vermilion stock in the fateful month of March, and what the future holds for this company and its shareholders.

Dividend cut proves to be consequential

As if the oil war between the KSA and Russia was not enough, the worldwide lockdowns have crashed the demand of oil and gas to non-existent levels. The compounded effect of this market development pushed the prices of different crude oil variants into a free fall.

This extreme imbalance of demand and supply forced Vermilion to shut down its crude oil production. However, the shutdown of production was not enough, and OPEC hadn't yet announced the potential production cut either.

However, stopping crude production was not enough to sustain the quickly aggravating economic crisis. Therefore, Vermilion decided to cut its dividend yield in half to take some pressure off this fiscal bind.

This decision led to a whopping 16% fall in its stock price in a single day. Vermilion has experienced several TSX spikes post-2014 oil depression. However, this was the sharpest drop in its entire history since its IPO. As of now, Vermilion stock is hovering around $5 and may not go beyond that for a long time.

Prospects of Vermilion stock

Even when the overall oil market was not doing well, Vermilion was considered a decent stock due to its high dividend yield. However, this has changed with a significant dividend cut. Also, the unprecedented nature of the current events may leave long-lasting effects on the stock. For example, oil prices have never plunged into negative figures before.

All of this has made it difficult for already cash-starving Vermilion to earn investors' trust back. Right now, the stock is trading at 28 times its projected earnings for the next 12 months with an estimated potential drop of 40.7% in sales this year. The projected sales for 2021 and 2022 are not encouraging either.

Conclusion

The energy sector has entered a gloomy phase for the foreseeable future. It may take years for oil and gas companies to get back to their pre-2020 positions.

The same goes for Vermilion. If you want to buy the dip with a long-term horizon in mind, you can consider Vermilion. If you own VET, it might be better to wait and let COVID-19 play out before selling Vermilion stock.

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