Why Vermilion (TSX:VET) Stock Jumped 9% on Monday

### Description

**Vermilion Energy** (TSX:VET)(NYSE:VET) shares jumped 9% on Monday after the company announced it would acquire 36.5% interest in Corrib Natural Gas. This came along with a boost in Vermilion stock's 2022 guidance, sending shares back towards 52-week highs.



## What happened?

Vermilion stock announced the acquisition of $556 million on Nov. 29. The transaction will come into effect on Jan. 1, 2022, and should close before the second half of next year, according to a statement. The company plans to use $200 to $300 million in cash towards the payment. This will be hedged by 70% of its production for 2022 and 2023 for a "high-certainty," two-year payback period.

This new Corrib acquisition should generate about $365 million in funds from operations (FFO). Further, it should bring in $361 million in free cash flow (FCF) in 2022 alone. It's likely this major cash flow is part of the reason Vermilion stock managed to resume paying its dividend.

## So what?

Vermilion stock halted dividend payments during the pandemic, as production dropped. But today is a different story. The Corrib acquisition and cash flow coming in has led to the first time the company will pay a dividend since the pandemic started. This payment should come out the first quarter of next year. And it may only get better.

Vermilion stock may start with a 36.5% interest and then increase that interest to 56.5% in the future upon success. The deal now gives the company incredible exposure to the European natural gas market.

“We are always looking for accretive acquisitions that consolidate or complement our existing asset base,” Vermilion president Curtis Hicks said in a conference call with analysts. “This acquisition ticks all the right boxes.”

## Now what?

The new dividend will come in at a quarterly payment of $0.06 per share, or $0.24 per year. This is a far drop from the substantial dividend yields Vermilion stock used to boast about before the pandemic. But management believes it’s sustainable, and that’s what’s important.

Meanwhile, analysts believe returns could be a bright near-term goal for investors. In fact, one called the deal a “strategic home run” for the company. From an energy company that struggled to make any meaningful mergers or acquisitions to achieving substantial European growth, it’s a major win for Vermilion stock.

Vermilion stock also announced that next year’s capital budget would reach $425 million, with expected production between 83,000 and 85,000 barrels of oil equivalent per day. This is even before the acquisition comes into play.

Shares of Vermilion stock are up 87% year to date but down 16% from 52-week highs.



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