



## Is Vermilion (TSX:VET) a Buy for its Upcoming Dividend?

### Description

In 2021, the energy sector experienced a powerful recovery. And the broad, sector-wide recovery triggered the growth of even some of the most down-trodden energy stocks. That “classification” includes **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#)), which saw its fair share of investors leaving the sinking ship when the company first slashed and then suspended its payouts in 2020.

In Vermilion's defence, the financial blow dealt by the pandemic was brutal enough to cause even energy giants like **Suncor** to slash their payouts. But a complete suspension of dividends is something that can shake investor confidence to the core, especially regarding the long-term prospects of the payouts.

### Restoring dividends

[The company](#) is “redeeming” itself by bringing back the dividends. The current plan is to start paying from April 2022. But even though dividends coming back sounds quite exciting, the actual size of the payouts is quite a letdown.

Vermilion slashed its dividend exactly in half in March 2020, and the payout went from 23 cents per share to 11.5 cents per share. Now that the company is planning to start paying dividends again after two years, the payout it's offering is six cents per share, which is a bit over one-fourth of its glory day dividends.

Further complicating the matters is the fear of the new variant, which might push the broader market down quite a bit and might trigger another dip in the near future. If the demand for oil slips down, Vermilion, with over one-third of its funds from operations (FFO) coming from oil, might again find itself unable to meet its dividend obligation.

### The capital-appreciation potential

Vermilion was an amazing [growth stock](#) between 2009 and 2014. Since then, it has been coming down

one step at a time. The post-pandemic growth, which has been quite phenomenal (about 324%), has less to do with the stock's organic recovery and is mostly influenced by the stock's low value in the first place.

The stock that used to trade above \$70 per share hit almost \$3.1 at the pandemic's depth. Still, if the stock falls due to a bearish energy sector and then rises again due to demand spikes and supply constraints (what happened in 2021), the growth prospects it offers would be a much better reason to invest in this stock.

## Foolish takeaway

The energy sector and oil's future prospects, in general, grow darker the closer we get to 2030's net-zero goals. Governments are still not implementing aggressive environmental laws and regulating the energy sector as rigorously as they should in order to reach the level of decarbonization necessary to achieve net zero by 2050.

But if the winds start to shift in that direction, Vermilion won't be the only [dividend stock](#) in the sector to suffer from the financial repercussions.

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