What's Next for Vermilion Energy (TSX:VET) After its Blockbuster Earnings?

Description

The energy sector continues to mark an epic turnaround since the pandemic. While the financial growth has been quite pleasing, the stocks have been unstoppable. The latest member that highlighted the theme is **Vermilion Energy** (TSX:VET)(NYSE:VET). The stock has been up 200% since last year. Interestingly, its latest quarterly numbers will likely give another important impetus to the stock.

VET stock rallies 13% on strong Q4 numbers

The $4.6 billion Vermilion operates assets in North America, Europe, and Australia. It produces around 84,000 barrels of oil per day, and North America contributes around two-thirds of it.

Vermilion reported a net income of $344 million for Q4 2021 against a loss of $57 million in Q4 2020. The production during the quarter was lower than the same period in 2020. However, crude oil prices averaged around US$77 per barrel in the fourth quarter of 2021. That was a massive increase of 81% compared to Q4 2020.

Apart from the financial growth, the company repaid a significant chunk of its debt during the quarter. This has been the trend among energy names since the pandemic. The excess cash has been deployed not to increase production but to repay debt and to improve balance sheet strength.

Vermilion intends to achieve a net debt target of $1.2 billion by the next quarter. This will likely bring its net debt-to-EBITDA ratio to a little lower than one from 4.7 last year. The net debt-to-EBITDA ratio indicates how many years a company would take to repay its debt using EBITDA.

Strong financial growth continues

The company saw superior free cash flow growth in the latest reported quarter. Notably, even after deploying that cash for debts, the surplus was used to issue dividends. Vermilion issued a quarterly dividend of $0.06 per share for Q1 2022. This was its first dividend since April 2020. It suspended shareholder payouts, as cash retention became the priority amid the pandemic.

Interestingly, if the strength in oil prices remains longer, Vermilion could reach its net debt target sooner. That opens a possibility of a dividend hike or a special dividend.

Vermilion's large-cap peer and Canada's biggest oil sands player **Suncor Energy** (TSX:SU)(NYSE:SU) has also seen a significant earnings expansion since last year. It has repaid a huge portion of debt and also managed to double its dividend last year. SU stock has been up 50% in the last 12 months.

Crude oil looks unstoppable

On the broader front, crude oil has once again breached US$125-a-barrel level. The Russia-Ukraine tensions could only imbalance the demand-supply equation, ultimately fueling the prices higher. Moreover, if the West and Europe cease to import Russian oil, analysts see US$150 a barrel levels materializing.

However, although there happens to be a truce or ease of sanctions, energy markets will still remain tight. The demand has been increasing fast amid full re-openings, but supply is expected to remain constrained. So, higher crude might continue to boost energy companies' earnings at least for the next few quarters.

VET stock has soared 75% so far this year. Its latest quarterly performance, dividend announcement, and aggressive debt repayments indicate that it is on a strong footing to play the crude oil rally.

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