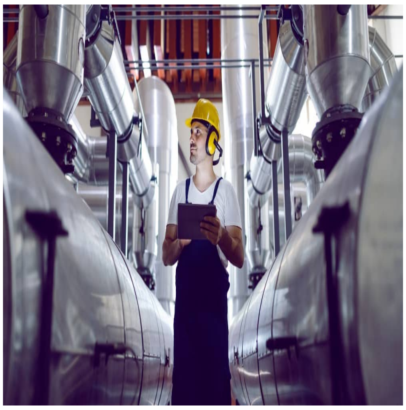

Vermilion Energy (TSX:VET) Stock Set to Soar Higher After a Solid Q2 Show

Description

Vermilion Energy (TSX:VET)(NYSE:VET) is among one of the top gainer TSX energy stocks this year. It has gained 110% this year and is trading at its three-year highs. It came out with solid second-quarter earnings yesterday, which could maintain the stock price strength. Moreover, oil and gas prices once again look ready to move higher on lower recession fears. So, despite VET's massive rally, it could continue to unlock considerable value for shareholders.

Vermilion Energy reports solid Q2 results

Almost the entire energy sector showed bumper earnings growth in the second-quarter (Q2) 2022, driven by a strong price environment. They all have been focusing on deleveraging and dividend hikes, which has made them investors' favourites. Vermilion, being no exception, managed to repay debt and issued a generous dividend hike for Q3 2022.

Vermilion Energy reported a free cash flow of $340 million for the quarter that ended on June 30. This marked an increase of nearly four times its free cash flows in Q2 2021.

A steep financial growth was much on the expected lines, considering the peers' earnings and price strength during the quarter. Besides the earnings growth, Vermilion declared a 33% hike in its regular dividends. So, now, it will pay $0.08 per share from Q3 2022, implying an annualized yield of 1%.

I agree, the yield is still not that great. Peers offer a much juicier yield close to 5%. However, Vermilion has the potential to increase its shareholder payouts further. Once it gets comfortable on the long-term debt front, it will likely allocate a higher portion of its free cash flows to dividends.

Vermilion stands out among Canadian energy stocks

Vermilion is among the very few Canadian energy companies that have exposure to Europe. Europe has seen substantial growth in natural gas prices this year due to geopolitical tensions. As a result, Vermilion's revenue from Europe more than doubled to $254 million during the quarter.

The company also managed to repay debt during the quarter, thanks to windfall cash flows. At the end of Q2 2022, it had total long-term debt of $1.5 billion, declining from over $2 billion at the end of 2020.

There has been blockbuster financial growth in the Canadian energy sector this year. But the most important trigger has been the balance sheet strengthening. Before the pandemic, energy companies were some of the most indebted, high-leverage, unstable companies. As balance sheets have become sounder, they are more capable to withstand external shocks and are relatively less risky.

VET stock: Valuation

Favourable valuation is another talking point about TSX energy stocks. VET stock is currently trading 1.5 times its enterprise value-to-cash flow ratio, much lower than its peers. Peers have an average valuation multiple close to three times. So, even if VET is trading at record levels, the stock could rally higher, driven by its appealing valuation.

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Date
2025/07/19
Date Created
2022/08/12
Author
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