



## Oil Falls Below US\$100 per Barrel: Sell or Hold These 2 Energy Stocks?

### Description

Market jitters have returned to the TSX on Tuesday following five consecutive days of gains. Canada's primary stock market could erase its gains as oil prices fall below US\$100 per barrel. Industry experts fear a slowdown in global growth. The economic outlook darkened because of weak economic data in China.

The Chinese central bank cut its medium-term lending rate to boost growth. Retail sales and industrial production in July were significantly lower than the forecasts of economists. Goldman Sachs analysts said domestic demand is still weak due to sporadic COVID outbreaks, production cuts in high-energy consuming industries, and problems in the property sector.

Meanwhile, Moody's Analytics paints a gloomier picture for the energy industry. The rating agency expects global oil prices to fall by almost US\$70 per barrel by year-end 2024. Are the current events a sign to move away from [energy stocks](#) before a severe correction happens?

### An energy stock to keep

I don't think investor interest in **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#)) will wane because of the not-so-good news. The business model of this \$5.3 billion international energy producer is all about free cash flow (FCF) generation and returning capital to investors, if economically warranted.

In Q2 2022, sales increased 110.9% to \$858.8 million versus Q2 2021. While net earnings dropped 19.6% to \$362.6 million, FCF increased 262.3% year over year to \$339.8 million. Notably, fund flows from operations jumped 161.9% to \$452.9 million versus the same quarter last year.

Investors should be happy to learn that Vermilion is on track to achieve its next mid-cycle debt target. Its long-term debt and net debt are down to \$1.5 billion and \$1.6 billion, respectively. Management intends to return an increasing amount of capital to shareholders as debt levels decline.

Vermilion also reiterates that dividends will remain a key component of its return-of-capital framework. The promise is to provide shareholders with a resilient and increasing base dividend. However, expect

the cap on the annual cash dividend to be 10% of its mid-cycle free funds flow. Still, management announced a 33% increase in its quarterly cash dividend for Q3 2022.

As of August 15, 2022, Vermilion trades at \$31.69 per share. Current investors are up 100.2% year to date. If you invest today, the dividend yield is a modest 0.37%

## Another hold not sell

**Crescent Point Energy** (TSX:CPG)(NYSE:CPG) has similar objectives of sharing profits with investors as Vermilion. The oil and gas company's framework targets returning up to 50% of its discretionary excess cash flow to shareholders. In the first half of 2022, cash flow from operating activities and adjusted funds flow from operations increased 62.2% and 74.2%, respectively, versus the same period in 2021.

In Q2 2022, Crescent Point returned \$108 million to shareholders through its base dividend and share buybacks. The amount represents approximately 30% of excess cash flow. Management announced a 20% increase in its base dividend for Q3 2022. At \$9.65 per share (+44.5% year to date), the dividend yield is 2.28%.

Craig Bryksa, Crescent Point's President and CEO, said, "Our second quarter results highlight our excess cash flow generation, continued operational execution and commitment to returning capital."

## Slowing oil demand

Oil demand is slowing and some market analysts predict a free fall soon. However, energy stocks like Vermilion and Crescent are profitable options if the prices rebound and oil markets remain tight.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. NYSE:VRN (Veren)
3. TSX:VET (Vermilion Energy Inc.)
4. TSX:VRN (Veren Inc.)

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