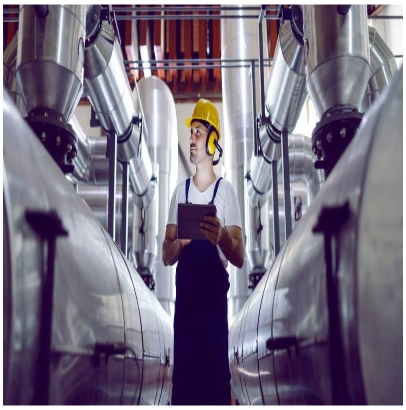

Why Vermilion Energy (TSX:VET) Stock Stands Tall in the Current Oil Rally

Description

Besides higher oil and gas prices, energy producers have displayed terrific capital discipline, which has driven their rally in the last few years. And **Vermilion Energy** (TSX:VET) has been no exception. Despite its recent weakness, VET stock has gained 85% this year. In comparison, TSX energy stocks have returned 50% in the same period.

What sets VET stock apart from peers?

There are two strong reasons to be bullish on Vermilion stock in the current environment. It could continue to outperform its peers, at least for the next few quarters.

Vermilion has a diversified asset base with strong exposure to Europe. Nearly 30% of its earnings come from its Europe assets. As gas prices in Europe have substantially shot up this year, Vermilion's earnings will likely see a notable surge.

To get a little perspective, Vermilion is forecast to get $75 per mmBtu (metric million British thermal unit) for its Euro gas next year, while its domestic assets fetch around $5/mmBtu. These high prices could remarkably boost its earnings and margins. No other Canadian energy producer is in such a sweet spot as Vermilion.

Note that Vermilion has seen solid financial growth this year already. It has allocated excess cash mainly for debt repayments in the last few quarters. This has substantially improved its balance sheet. So, the incremental cash will now likely be used for shareholder returns.

Improving balance sheet

Vermilion Energy currently has a net debt of $1.6 billion — a notable reduction from $2 billion levelslast year. Note that, just a few years back, energy producers used to have large debt piles that scared investors. However, since the pandemic, their debt levels have fallen to manageable levels, and shareholders' risk has dropped.

Vermilion's net debt-to-EBITDA (earnings before interest, tax, depreciation, and amortization) ratio has dropped from seven in 2020 to 0.6 as of the second quarter (Q2) of 2022. This is a popular leverage ratio and indicates how many years a company would take to repay its debt using EBITDA. TSX energy stocks, on average, have seen this ratio dropping below one in the current bull market.

Vermilion re-established its dividend in the first quarter of this year and raised it further by 33% in the third quarter. So, it is expected to pay an annual dividend of $0.32 per share, implying a yield of 1%. In comparison, Canadian energy names offer a much juicier yield of around 5% at the moment.

However, Vermilion will likely allocate a higher portion of its free cash flows to dividends and buybacks. So, we can expect another dividend hike in the next few quarters. Note that despite relatively lower dividends, VET stock sits among some of the top value creators in the sector.

Valuation

Moreover, Vermilion stock looks strong on the valuation front as well. It is currently trading at a free cash flow yield of 38%, while the sector average is around 20%. Plus, it is trading seven times its earnings, which is much lower than its peers. So, this suggests that the growth factors are not yet baked into its stock yet and could drive a big move upwards.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date
2025/08/14
Date Created
2022/10/18
Author
vinitkularni20