What's Next for Vermilion Energy Stock After Its Solid Q3 Earnings?

Description

The only sector that has been shining bright this year is energy. Be it the market performance or earnings growth, oil and gas companies have not disappointed investors in 2022. Among some notable mid-caps, **Vermilion Energy** (TSX:VET) reported last week.

As expected, it put up a great show and posted solid third-quarter earnings. However, the stock went south and fell 16% to two-month lows after its earnings last week. VET stock is still sitting on 80% gains for the year, beating TSX energy stocks by a wide margin.

Vermilion Energy posts robust Q3 growth

Vermilion delivered stellar numbers for the quarter. However, Europe's proposed windfall taxes played the spoilsport. Vermilion has assets in Europe as well, responsible for 34% of its total production. As per estimates, the windfall taxes could cost Vermilion around $700 million collectively in 2022 and 2023.

The company is still assessing the impact on its earnings as more details are expected. However, until then, Vermilion management has decided to suspend its buyback plan, which created gloom among investors.

Vermilion Energy reported free cash flows of $324 million for the quarter that ended on September 30, 2022. This was an impressive 65% increase against the same quarter last year.

Improving balance sheet

Even though the company has suspended its share repurchase plan, deleveraging remains its top priority. At the end of the third quarter, Vermilion had net debt of $1.4 billion, down from $1.8 billion in Q4 2021. The company will likely continue to earn solid free cash flows next year as well, given its higher production and energy prices.

Almost all energy companies have repaid debt and strengthened their balance sheets since the pandemic. Energy was one of the disdained sectors in the pre-pandemic period because debt generally formed two or three times the equity. However, thanks to oil and gas companies' capital discipline in the current high-price environment, the debt on their balance sheets has fallen below half of the equity.

As a result, energy has turned into one of the loved areas for investors in these uncertain markets. Vermilion's debt came in at 50% of its equity at the end of Q3 2022. It has achieved the lowest financial leverage of the last 10 years.

Valuation

Notably, Canadian oil and gas names have quite a few undervalued names even after their steep rally this year. And Vermilion Energy is one of them. VET stock is currently trading at four times its earnings, which looks way too discounted compared to peers.

Moreover, it is trading at a 2023 free cash flow yield of 34%, after considering the assumed impact of windfall taxes. That also is highly undervalued as peers are trading at a free cash flow yield of 18% at the moment.

Looking forward, oil prices are expected to remain strong on the back of a severe demand-supply imbalance. Considering Vermilion's higher production next year and exposure to high-price areas, the stock will likely outperform.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. 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. cleona
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date
2025/07/20
Date Created
2022/11/15
Author
vinitkularni20