Vermilion Energy Stock Is Trading Near Its 52-week Lows – Time to Invest?

Description

The energy sector has been losing steam for the last few months, largely due to volatile oil prices. However, some top performers of 2022 have been losing value fast. One from the pack is **Vermilion Energy** (TSX:VET). The stock has lost 48% since last August and is currently trading close to its 52-week lows. VET broke below $20 apiece last week, and hit a 52-week low of $17 in January 2022.

What's next for Vermilion Energy stock?

Same time last year, VET stock had strong momentum. From January to August, Vermilion shares jumped 130%, beating peers by a big leap. But this year could unfold differently for Vermilion due to windfall taxes in Europe.

Vermilion significantly differentiates itself from peers due to its diversified asset base. It derives nearly one-third of its consolidated revenues from European energy assets. While this exposure was mainly behind its outperformance last year, the same has weighed on it since August.

Also, natural gas prices have been on a decline for the last few weeks due to warmer weather. The drop has been even faster in Europe, which has weighed terribly on VET stock.

Vermilion and windfall taxes

Vermilion Energy paused its share buyback plan last year amid uncertainties that windfall taxes brought in. Last week, it released guidance for 2023 that announced an expected 25% dividend hike and restarted its share buyback plan.

However, the latest guidance could not uplift investor sentiment. This is because though it had some respite, the guidance came with some new issues. The production guidance for the year came in below expectations, which somewhat marred the sentiment. Thenoil and gas produced intends to produce around 89,000 barrels of oil per day in 2023; that's much lower than analysts' expectations.

As per the guidance, Vermilion Energy expects windfall taxes to cost it around $250 million to $300 million for 2022 and 2023, respectively. That's almost a quarter of its annual profits. But this impact seems to be already priced into the stock.

Financial growth and valuation

Vermilion Energy reported free cash flows of $507 million in the last 12 months, representing a handsome 54% growth compared to 2021. Interestingly, it utilized a large portion of this incremental free cash flow for debt repayments. As a result, long-term total debt fell from $2 billion in 2020 to $1.4 billion at the end of Q3 2022. This declining debt will lower its interest expense and ultimately improve profitability going into 2023.

Vermilion Energy stock looks tempting after its recent drop. On the valuation front, the stock is trading at a free cash flow yield of 21% compared to its peers' average of around 16%. VET looks attractive trading at a price-to-earnings ratio of three times. So, this could be a prudent time to enter VET, given the discounted valuation.

Risk priced in

A higher windfall tax impact and lower gas prices form key risks for Vermilion. But both these risks look already baked into the stock price. So, if gas prices stabilize here, we might see limited downside in VET stock from its current levels.

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