Vermilion Energy Stock: A Severely Oversold Growth Bargain to Buy and Hold

Description

The weak start of energy stocks in 2023 is contrary to market analysts' predictions that they will be red hot again this year. As of this writing, the energy (-1.66%) and consumer staples (-0.32%) sectors are in negative territory year to date. Many energy constituents were high flyers in 2022, although some trade at depressed prices today.

Vermilion Energy (TSX:VET) is an oversold growth bargain you can buy and hold. Its current share price of $18.77 (-21.7% year to date) is a good entry point considering it is 52.4% lower than its 52-week high of $39.21.

The high price targets of market analysts covering VET of $52 (+177%) is a good hike above the 12-month average of $33.77 (+79.9%). Your potential overall return should be higher when including the 1.7% dividend yield.

Business overview

Vermilion is an international energy producer with a market cap of $3 billion. It operates in three core regions where the company optimizes its producing assets to create shareholder value. The assets in North America (Canada and the U.S.) account for 60% of total production.

According to management, the business model emphasizes free cash flow (FCF) generation and returning capital to investors when economically warranted. The operations exploit light oil and liquids-rich natural gas conventional resource plays in North America.

In Europe and Australia, Vermilion explores and develops conventional natural gas and oil opportunities. However, fluctuations in commodity prices, interest rates, and foreign currency exchange rates can materially affect operations. But under the normal course of business, the company sells a portion of production via fixed-price arrangements.

Rebound from the oil slump

The global energy industry suffered deep losses when crude oil prices collapsed in 2023. Vermilion was among the players that had to bite the bullet in the wake of the pandemic. The deteriorating business conditions prompted management to do all it could to protect its financial position, including suspending dividend payments.

In 2020, petroleum and natural gas sales declined 33.7% to $1.1 billion versus 2019. Notably, the net loss reached $1.5 billion compared to the $32.8 million net income from a year ago. President and CEO, Dion Hatcher, said 2021 was a transformational year for Vermilion.

Vermilion made a turnaround despite a modest capital budget that aims to preserve liquidity. The top line rose 85.8% year over year to $2 billion, while free cash flow (FCF) jumped 304.2% to $545 million versus 2020. Meanwhile, net earnings for the year reached $1.2 billion.

Appealing to growth and value investors

The picture got rosier for Vermilion in 2022 due to the favourable pricing environment. In Q1 2022, the energy stock reinstated its quarterly cash dividend ($0.06 per share). In the first three quarters, FCF soared 162.6% year over year to $968.1 million.

In early January 2023, management announced a $570 million capital budget for the year and a 25% increase in the quarterly dividend. Industry experts believe oil and natural gas will continue to benefit from increased demand and elevated prices. Vermilion Energy is an appealing prospect for growth and value investors.

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