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Vermilion Energy slashing dividend in half, points to virus impact

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Video link

Vermilion Energy Inc. has bowed to volatile energy market dynamics, announcing it will slash its monthly dividend in half.

Effective for the payout to shareholders on April 15, the dividend will fall 50 per cent to $0.115 per share. Vermilion had been paying $0.23 per share since early 2018. Vermilion chief executive officer Anthony Marino pointed to slumping oil prices as a primary reason for the cut.

“We pointed out that in the event of a significant change, a structural change, in commodity prices, we would re-evaluate,” Marino said in a BNN Bloomberg interview on Friday in specific reference to previous dividend discussions.

“That is just what has happened here, quite rapidly over the last month, and even – in very rapid fashion – over the last couple of weeks with the air pocket in the economy, particularly in oil demand as a result of coronavirus.”

The Brent crude futures contract for May fell more than nine per cent on Friday to US$45.27, while American West Texas Intermediate dropped 10 per cent to US$41.28. The sustainability of Vermilion’s dividend has long been a hot topic on Bay Street, as its yield soared in recent years while oil prices collapsed.

Indeed, ***Veritas Research*** Analyst ***Jeffrey Craig*** recently predicted the payout could be cut in half "The company has never reduced its monthly payout, a unique feat amongst Canadian [explorers and producers]," ***Craig*** told clients in a research report published last month.

"Despite its impressive history, we calculate that Vermilion will be unable to fund its annual dividend from cash flow in the current commodity price environment."

Marino pointed specifically to the toll the novel coronavirus – COVID-19 – has taken on international travel as a key driver to what has sunk oil prices to the point where Vermilion decided it had to slash the monthly payout.

“You can see this in the particular drop that we’ve had in air travel, which actually had been a really strong component of oil-demand growth,” Marino told BNN Bloomberg. “I think eventually the travel patterns will re-assert themselves (to) what we had before.” While Marino said Vermilion expects the coronavirus’ impact to be a “short-to-medium-term phenomenon,” he did note that it could significantly weaken already-vulnerable economies.

“But, in the near-term, you’ve already got lower oil demand. There is the potential that the virus can tip the economy into recession; a number of economies were kind of on the brink already,” he said.

“What it really creates is a great deal of uncertainty, and that’s something that we have to take that into account, as well, when we set our dividend level.”