2 Energy Stocks That Can Provide Massive Returns

Description

Energy stocks have had a difficult quarter. Over the last three months, the TSX Energy Index is down almost 11% and has vastly underperformed the TSX Composite Index's 1% gain. Oil prices have been highly volatile and are currently trading at three-month lows.

Over the same period, some small- and mid-cap companies have suffered massive hits to their share price. Stocks such as **Encana** (TSX:ECA)(NYSE:ECA) and **Surge Energy** (TSX:SGY) are oversold and are well positioned for a rebound.

Hitting new 52-week lows

Let's start with Encana. This mid-tier producer has a multi-basin portfolio of natural gas, oil, and natural gas liquids (NGLs). The company had a down quarter and its stock was punished. The company recently hit 52-week lows and its share price is down almost 30% over the past quarter.

Despite the recent plunge, there is plenty to like about the company. It has a footprint in four of the most attractive liquid-rich plays in North American and generates a considerable amount of cash flow. This will enable it to navigate any long-term pressure on oil prices. Likewise, it has already realized greater-than-expected synergies from its Newfield Exploration acquisition. Up from $125 million, it now expects to achieve annual synergies of approximately $150 million.

The company has taken advantage of the recent price weakness to repurchase 91 million in shares through the month of April. Management recognizes the stock is undervalued. In 2020, analysts expect the company to grow earnings by 25% and have a one-year price target of $13.70 per share. This implies triple-digit upside.

As of writing, the stock is in oversold territory with a 14-day relative strength index of only 20. An RSI below 30 signifies that the stock is oversold and may be primed for a bounce. The company is well positioned to reward investors with big gains once the price of commodities rebound.

Surge Energy is another stock that is near 52-week lows. Over the past quarter, it has actually outperformed the Index losing only 7.66% of its value. This is not surprising, however, as the company's stock price was already depressed before recent industry weakness.

Surge is trading at less that half times book value (o.48) and is expected to grow earnings in the triple digits this year. This small-cap producer has grown production for seven straight quarters, hitting new records in the process.

As investors wait for Surge Energy's price to rebound, they benefit from a very attractive 7.75% yield. Although a high yield warrants some caution, the dividend is covered by free cash flow and accounts for only 24% of operational cash flow. The company is well positioned for long-term sustainability as it has a low base production decline of only 23%, has high netbacks and has more than 14 years of drilling inventory.

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1. Dividend Stocks
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1. TSX:SGY (Surge Energy Inc.)

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Date
2025/09/28
Date Created
2019/06/07
Author
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