



Why Tourmaline Oil (TSX:TOU) Stock Is a Top Natural Gas Play for 2022

Description

Canada's oil and gas producers have had a banner year so far in 2021, driven by a massive recovery in energy commodities. Top natural gas play **Tourmaline Oil** ([TSX:TOU](#)) has been among the front runners, gaining more than 150% in the last 12 months.

Apart from such a massive capital gain, it rewarded shareholders this year with a couple of dividend raises and a generous special dividend. Interestingly, the company could continue its grand performance in 2022 as well.

Tourmaline Oil stock for 2022

A \$14 billion Tourmaline Oil is Canada's biggest natural gas producer. It is a low-cost producer with operations in the Alberta deep basin, NEBC Montney, and Peace River Triassic oil. It aims to produce 500,000 boepd of natural gas in 2022, which is marginally higher than 2021.

Several factors drove Tourmaline's ascent this year. Along with higher gas prices, improved well performance and lower capital costs notably improved its profit margins in 2021.

Tourmaline Oil is expected to report \$2.8 billion in free cash flows in 2022, that's almost double the free cash flow in the last 12 months. Interestingly, the management had been generous in deploying this excess cash. It increased dividends twice and announced a [special dividend](#) of \$0.75 per share in September.

Importantly, the company has been hopeful of another special dividend in Q1 2022. If energy commodity prices remain supportive, Tourmaline shareholders could see a special dividend once again.

Balance sheet and valuation

Tourmaline has also been aggressively repaying its debt with the excess cash from the last few quarters. Its net debt-to-EBITDA ratio has improved from 1.4 at the end of 2019 to 0.6 as of Q3 2021.

Net debt to EBITDA is an important leverage metric and tells how many years a company would take to repay debt.

Tourmaline Oil stock has risen 150% in the last 12 months, almost double the TSX energy index. Notably, despite the steep gain, the stock has a price-to-earnings multiple of close to eight.

In comparison, peer **ARC Resources** ([TSX:ARX](#)) stock also had an epic rally in 2021. It is up almost 98% in the last 12 months. It is an \$8 billion natural gas producer operating in northeast British Columbia and northern Alberta.

At the end of Q3 2021, it had a net debt-to-EBITDA ratio of 2.4, much higher than Tourmaline's. After a steep rally, ARX stock is trading 15 times its earnings. Note that ARX has a superior yield of 3.5% against TOU's 2%.

Comparing the two, Tourmaline Oil seems to have an edge against ARC Resources. Higher profit margins, low leverage, and a relatively [lower valuation](#) make TOU stock a more appealing bet.

Positive environment for energy commodities

Natural gas prices have fallen more than 35% in the last two weeks on milder weather expectations and a new coronavirus variant. However, the U.S. Energy Information Administration [forecast](#) that Henry Hub prices would average \$3.98/MMBtu in 2022. Although the estimates are lower than earlier, they still leave room for significant earnings and free cash flow growth for gas producers next year.

With its huge asset base, strong balance sheet, and attractive valuation, Tourmaline Oil looks well placed to outperform its peers.

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Date

2025/06/28

Date Created

2021/12/08

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vinitkularni20

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