3 Top TSX Energy Stocks to Buy for 2022

Description

Energy stocks shrugged off Omicron fears as possibilities of full-fledged lockdowns have waned of late. They now seem to be readying for yet another banner year in 2022 after notably recovering from the pandemic. Here are the top three energy TSX stocks that could outperform peers next year.

Vermilion Energy

Vermilion Energy (TSX:VET)(NYSE:VET) has notably outperformed the sector, gaining more than 110% in 2021. The company derives almost half of its earnings from gas, and the other half comes from natural gas liquids and crude oil.

Vermilion reported a notable surge in its cash from operations this year. For the nine months ended September 30, 2021, its operating cash flow came in at $583 million — an increase from $364 million in the same period last year. The management is positive about the trend continuing next year as well.

Interestingly, Vermilion plans to resume dividends next year, which was suspended amid the pandemic. Dividend trimming or suspension became the norm last year when cash retention was the priority.

Higher oil and gas prices could continue to boost energy companies' financials next year, thanks to expected robust economic growth. Energy companies like Vermilion plan to use this excess cash for debt repayments and increased dividends.

Importantly, despite the steep rally, VET stock looks undervalued against the peers' average. It is trading three times its historical earnings, which indicates a huge runway for growth in 2022.

Suncor Energy

Canada's largest oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) also looks poised to grow next year. It has notably underperformed peers and has gained a mere 32% in the last 12 months. At the same time, energy TSX stocks, on average, have gained 70%.

However, next year could be different for Suncor Energy and its investors. The strengthening of the balance sheet and higher expected free cash flows will likely drive shareholder returns.

Suncor Energy doubled its dividends in Q4 after higher energy prices boosted its financials. It also repaid $3.1 billion debt so far in 2021, reversing the damage caused by the pandemic.

SU stock looks relatively expensive when it comes to valuation. It is currently trading 19 times its earnings, which is higher relative to the industry average. However, a higher P/E ratio also means investors are willing to pay the premium because of higher growth expectations in the future.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is Canada's second-biggest energy company by market cap. It has returned 65% so far in 2021.

CNQ looks tall among peers mainly due to its robust balance sheet. It kept raising shareholder payouts last year when Big Oil was busy trimming or suspending dividends. It yields 4.3% at the moment, higher than TSX stocks on average.

CNQ is forecast to generate $7.5 billion in free cash this year, more than thrice the last year, with an average crude oil price of US$60 a barrel. With oil prices expected to reach US$100 a barrel, or even higher per some analysts, CNQ's free cash flows could continue to witness steep growth next year.

CNQ stock is currently trading 11 times its earnings and looks to continue trading at a discount. Canada's oil giant could continue to unlock a remarkable value for shareholders next year as well.

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1. Energy Stocks
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vinitkularni20