



Why Ovintiv Stock Jumped 12% Yesterday

Description

What happened?

While tech stocks tumbled on Tuesday, energy names saw one of the best days of late. TSX energy stocks at large gained 3.6%, but mid-sized oil stock **Ovintiv** ([TSX:OVV](#))([NYSE:OVV](#)) jumped a notable 11.7% on January 4. Ovintiv stock stood tall and rose 135% last year. Energy stocks will likely have another blockbuster year on the bullish oil price environment this year.

So what?

Several reports suggest that Omicron might not dent energy demand as once feared. The recent OPEC+ decision to maintain the projected production increase highlights its confidence in the surging demand.

Crude oil prices went up 1% on Tuesday after the oil cartel [decided](#) to add 400,000 barrels per day in February. However, the supply still lags fast-increasing demand, which has brought crude oil from US\$47 per barrel last year to US\$77 levels today.

Energy companies have exhibited massive earnings revival since mid-2020 due to rising oil and gas prices. Driven by excess cash, [generous dividend hikes](#) and debt repayments have become the norm across the sector.

Ovintiv has been no exception. It generated \$1.4 billion in free cash flows in the first nine months of 2021 — a massive increase against 2020. Thus, the company managed to reduce approximately \$2.1 billion in net debt so far in 2021.

Ovintiv aims to invest \$1.5 billion in capital projects in 2022, which is in line with 2021. While the production target will likely be around 2021 levels, the main focus will be on maintaining capital discipline and returning cash to shareholders.

Small- and mid-sized energy stocks saw a much steeper jump on Tuesday relative to peer energy giants. The biggest by market cap, [Canadian Natural Resources](#) stock, soared 2.3%, while **Suncor Energy** jumped 4.7% on January 4. Both returned 75% and 50% last year, respectively.

Now what?

The recent surge in oil prices indicates that Omicron might not deter energy investors' sentiment. Also, rising inflation makes energy stocks even more attractive, because of their pricing power. Cheaply valued energy stocks with strong growth prospects make an appealing proposition for discerned investors.

OVV stock could continue to trade strong if oil and gas prices remain favourable. In addition, superior financial growth with improving balance sheet strength could unlock considerable value for its shareholders in the long term.

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