



Energy Investors: Prepare for a Supercycle in 2022

Description

Industry analysts say a “supercycle” is coming to TSX’s energy sector this year. Eric Nuttall, a partner and senior portfolio manager at Ninepoint Partners LP, has long been forecasting a rebound by energy stocks.

Energy was the index’s top-performing sector last year, with gains of nearly 80%. Rafi Tahmazian, the senior portfolio manager at Canoe Financial, echoes Nuttall’s forecast. He believes the coming supercycle will be significant. Tahmazian added that COVID-19 made the developing and developed world more dependent on oil than we have been in the last 15 years.

Winning stocks

The International Energy Agency predicts demand will rise by 3.3 million barrels per day to 99.5 million barrels per day in 2022. That level would match or approximate the record demand in 2019 before the pandemic. In the last five trading days (December 31, 2021, to January 7, 2022), the energy sector has surged 8.9%.

NuVista Energy ([TSX:NVA](#)) and **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) should be on investors’ watchlists, if not [buy lists](#). The former had a total gain of 642.55% in 2021, while the latter’s overall return was 460.87%. Both stocks trade below \$10, so the prices are good entry points vis-à-vis their growth potential.

Significant growth objectives

NuVista has yet to report its full-year financial and operational results, although it should be strong like in the first three quarters of 2021. In the nine months ended September 30, 2021, management reported an 87% increase in petroleum and [natural gas](#) revenues. Notably, net income was \$151.51 million compared to the \$913.31 million net loss.

The \$1.61 billion oil, condensate, and natural gas company generated \$228.51 million in cash flow

from operations, a 123% year-over-year increase. NuVista boasts top-quality assets, particularly the Pipestone and Wapiti Montney play development.

NuVista announced a capital-spending budget of \$290 to \$310 million in 2022. According to management, the company should achieve its significant growth objectives (production and cash flow) and enable a material reduction in net debt. The share price is \$7.11 if you invest today.

Meaningful cash flow in five years

Like NuVista, Baytex Energy benefits from the strong pricing environment. The \$2.35 billion oil and gas corporation operate in the Western Canadian Sedimentary Basin and the Eagle Ford in the United States. About 81% of its production weighs toward crude oil and natural gas liquids.

In the nine months ended September 30, 2021, adjusted funds flow increased 131.48% to \$530.86 million versus the same period in 2020. Baytex had \$284 million in free cash flow after three quarters. Net income for the period reached \$1.05 billion compared to the \$2.66 billion net loss a year ago.

Baytex announced in early December 2021 a board-approved capital budget of \$400-\$450 million in 2022. Its president and CEO Ed LaFehr said, "I am excited with the momentum we are building in our business." In the company's five-year outlook (2021 to 2025), management expects to generate approximately \$2.1 billion of cumulative [free cash flow](#). This energy stock trades at only \$4.11 per share.

Safe long-term bets

Tahmazian sees oil as the safe bet long term, although he's also bullish on natural gas. NuVista and Baytex will likely be big winners again this year, as they were in 2021.

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Date

2025/07/21

Date Created

2022/01/11

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