Why Did NuVista Energy (TSX:NVA) Stock Jump 15% on Tuesday?

Description

What happened?

Small-cap energy stock **NuVista Energy** (TSX:NVA) has been on a roll in 2022 after having a massive 2021. On January 11, it added another 14.6% to its growth streak, taking its 12-month surge to 700%. Almost all energy stocks have been rallying of late, driven by an upbeat oil and gas price outlook for the year. Moreover, NuVista recently released a positive operational update, which drove the stock to its three-year highs.

So what?

NuVista is a $1.9 billion oil and gas production company, mainly working in the Western Canadian Sedimentary Basin. On January 10, 2021, the company announced that it achieved record production in the fourth quarter, exceeding its annual guidance of 57,000 boe/d. Importantly, 55% of its production in Q4 2021 was natural gas, which has been trading remarkably strong.

Rallying oil and gas prices have significantly boosted energy companies' earnings since mid-2020. That's why energy stocks have outfoxed broader markets since last year. In 2021, TSX energy stocks gained 80% on average, while the **TSX Composite Index** rose a mere 20%.

NuVista Energy also reaffirmed its production guidance of 66,500 boe/d for 2022, representing an increase of 11% relative to 2021. If oil and gas prices continue to remain strong, energy producers like NuVista would likely see stellar free cash flow growth in 2022.

The company has been guided to achieve a free cash flow of $315 million in 2022 relative to approximately $49 million reported in the last 12 months. Importantly, all of this free cash will likely go to debt repayments as done last year. As per the latest reported quarter, NuVista has net debt of $545 million as of September 30, 2021.

Now what?

Energy companies have been aggressively repaying debt with the excess cash they have generated in the epic recovery. As a result, the balance sheet strength of the Canadian energy sector significantly improved recently relative to the early pandemic.

NuVista is no exception. Higher expected production and oil prices could drive its financial growth this year as well. If it manages to bring down the net debt amount below $400 million, it could consider using the extra cash to fund shareholder dividends.

Although NuVista stock has zoomed 700% in the last 12 months, further upside in energy commodities could drive NVA stock even higher.

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