



Why Obsidian Energy Stock Is up Over 17% This Week

Description

What happened?

While tech stocks have continued to teeter lately, energy names have been unstoppable. The small-cap names among them have stolen the limelight in the last few weeks. **Obsidian Energy** ([TSX:OBE](#))([NYSE:OBE](#)) stock, a \$700 million crude oil producer in Alberta, is up 17% so far this week. It is up 75% in a month and 675% in the last 12 months.

So what?

So, market participants who managed to switch from high-growth tech names to energy stocks early this year must be sitting on handsome gains today. And, importantly, TSX energy stocks still seem to have a lot of steam left for 2022 and beyond.

Like many energy peers, Obsidian Energy, too, issued upbeat guidance for 2022 this week. It aims to produce approximately 30,000 barrels of oil per day this year — a hefty increase of 25% against its production in 2021. The production increase indicates management's confidence in the macro environment and highlights superior earnings potential.

Crude oil prices touched US\$90 a barrel this week, which drove [energy stocks](#) higher. If geopolitical tensions continue to rise, oil could reach triple digits soon, substantially boosting energy companies' earnings.

Obsidian Energy is [forecast](#) to generate \$166 million of free cash flows in 2022 if WTI crude oil averages at US\$75 a barrel. It sees aggressive debt repayments and a notable improvement in its balance sheet strength in that case.

Energy companies forecast crude oil prices to average around \$75 a barrel this year. So, even if oil corrects from current levels, they will likely see superior free cash flow growth and balance sheet improvement as planned. Moreover, the ongoing strength in oil prices could drive windfall gains for

them in Q1 2022.

Now what?

OBE stock is trading at \$8.7 apiece at writing, its three-year high levels. While Canadian energy bigwigs have doubled since the pandemic crash, Obsidian stock has turned 18-bagger in the same period. To be precise, if you'd invested \$10 in OBE stock during the mid-2020s, you would have accumulated approximately \$180 today.

Small-cap stocks generally outplay their large-cap counterparts in bull markets. Obsidian stock might continue to exhibit that this year. It looks way [discounted](#) relative to the industry average and, thus, indicates a huge growth runway ahead. The potential oil price strength could fuel Obsidian's financial growth and shareholder returns this year and beyond.

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