



2 Top Energy Stocks That Sure Have Incredible Valuations Right Now

Description

Energy was a top-performing sector in 2021. For 2022, there's reason to believe this commodities bull market can propel energy to the leader board once again. Indeed, any sector that has surged triple digits over the past year is one that's going to gain investors' attention.

However, with this sharp increase in valuation has come concern. There are some who believe this sector may be overvalued, particularly should energy prices fall.

However, I think two energy stocks with [excellent valuations](#) right now are **MEG Energy** ([TSX:MEG](#)) and **ARC Resources** ([TSX:ARX](#)). Let's dive into why these two stocks have the potential to outperform this year.

Top energy stocks: MEG Energy

MEG Energy is a transporter and seller of thermal oil (AWB) to North American and international customers. In addition, the \$4.6 billion energy organization actively develops innovative oil recovery projects. These projects use steam-assisted gravity drainage (SAGD) extraction methods. The southern Athabasca oil region of Alberta is the company's area of concentration.

In the nine months ended on Sep. 30, 2021, the company showed revenue growth of more than 100% to \$3 billion. Given this company's [valuation of \\$4.6 billion](#), that's a rather impressive price-to-sales valuation.

Further, MEG managed to bring in \$105 million over this period compared to a \$373 million loss the year prior. Thus, on a price-to-earnings basis, MEG stock may be considered more of a higher-valued energy stock right now.

The thing is, I think these higher oil prices are likely to remain in place for some time. This improvement in earnings is likely only just underway. Should oil prices remain above the \$80 level for a sustained period of time, MEG should be able to improve its balance sheet.

Given the company's debt load, MEG's leverage to oil prices is high. For investors who have bought in over the past couple years, this has turned out to be a very good investment.

However, I think the company's 2022 cash flows should come in around \$1.6 billion — in line with analyst estimates. If that happens, this stock will be trading around three times cash flow, an absolute bargain-basement valuation.

There is a higher level of risk with this stock that is related to its debt profile. This has driven the company's rather low valuation. However, for energy bulls, this is the kind of low valuation stock one might want to look at right now.

ARC Resources

Another one of the energy stocks I think has an excellent valuation is Arc Resources.

Based on current cash flows and energy prices, Arc Resources could potentially privatize itself at a payback period of only four years. That's right; this is a company trading at four times projected cash flows for investors to consider.

Indeed, like many energy stocks, Arc Resources's valuation is pricing in some sort of decline in energy prices. That makes sense, since we're nearing historical highs across the board. Questions of just how long these low supply levels can remain are rampant right now.

However, Arc's positioning as one of Canada's largest natural gas and condensate producers is something I think is worth considering. Natural gas and condensate are different markets from crude oil. And Arc is a relatively little-known name, trading below the valuations of its peers.

Those bullish on broader strength in energy prices may want to consider Arc right now. It's expected that this company will continue to deliver more cash to investors via dividend increases and share buybacks. Right now, ARX stock is a lucrative mid-cap play that I think is worth a deep dive.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. chrismacdonald
2. kduncombe

Category

1. Energy Stocks
2. Investing

Date

2025/08/22

Date Created

2022/02/09

Author

chrismacdonald

default watermark

default watermark