2 Energy TSX Stocks Set to Explode in 2022

Description

It seems like the delight for energy investors will last longer. After a steep run last year, energy TSX stocks look in great touch again in 2022. While crude oil touched US$97 a barrel this week, several analysts have given a price target that's much higher in the three digits.

Why TSX energy stocks look strong

Interestingly, there are way more reasons to be bullish on the energy sector than otherwise. First, supply constraints and rapidly increasing demand will likely continue to boost energy commodities this year, even with a sharper pace than last year.

OPEC has conveyed its reluctance to increase supply beyond its aforementioned quotas. North American oil producers are more focused on maintaining capital discipline and not ready to splurge more on capex. At the same time, demand has been increasing fast due to loosening mobility restrictions.

Canadian energy stocks at large have doubled since last year. While dividend visibility has notably increased amid significant free cash flow growth, stocks could continue to trade strongly in the short to medium term.

Russia-Ukraine tensions have sent crude oil close to $100 a barrel. So, energy-producing companies will likely see their Q1 2022 earnings explode, driven by somewhat higher production and sky-high prices.

Discounted valuation indicates a huge runway for growth

Note that TSX energy stocks are currently trading 20 times their earnings, lower than their counterparts south of the border. One of the stocks that look relatively discounted is **Vermilion Energy** (TSX:VET)(NYSE:VET). Despite gaining 80% in the last 12 months, it is trading at just five times its earnings.

Vermilion saw a huge earnings recovery driven by rallying oil and gas prices. Its net income jumped to $746 million in the last 12 months against a loss of $1.52 billion in 2020.

A $3.5 billion Vermilion has assets in North America, Europe, and Australia. It plans to improve balance sheet strength by aggressively repaying debt.

Interestingly, energy companies, including Vermilion, could see huge earnings growth with higher-than-expected oil prices in the next few quarters. Vermilion plans to release its Q4 2021 earnings early next month.

Another TSX energy stock that will likely zoom on rallying gas prices is **Birchcliff Energy** (TSX:BIR). It looks significantly undervalued against peer energy stocks. Despite rallying more than 100% since last year, BIR stock is trading seven times its historical earnings.

Birchcliff is a $1.7 billion natural gas-dominated energy production company. Gas prices have also been on the rise of late, mainly due to increased demand and colder weather. Birchcliff could continue to see superior earnings growth driven by higher gas prices.

The company managed to repay $262 million debt last year, which brought down its total debt to $499 million as of December 2021. That ultimately improved its leverage, bringing the net debt-to-EBITDA ratio from 5.25 in September 2020 to 0.7 in December 2021.

Bottom line

It’s important to note that though energy markets look poised to grow, the above-mentioned relatively smaller stocks might exhibit above-average volatility. So, they bring a high-risk, high-reward proposition for those who have the stomach for large stock price swings.

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