2 TSX Energy Stocks to Buy as Oil Prices Touch 7-Year High

Description

The ongoing conflict between Russia and Ukraine is likely to impact equity markets in the near term. Most countries part of the European Union in addition to the U.S., the U.K., and Canada have already announced economic sanctions targeting Russia. For example, the company that was to deploy US$11 billion to build Russia's Nord Stream 2 gas pipeline has been slapped with sanctions.

Oil exports account for almost a third of Russia's economy, but the country also supplies more than 33% of natural gas to the European Union, which might result in higher oil prices in 2022. At the time of writing, the prices of Brent oil surged to US$111, increasing by 74% in the past year.

Despite the ongoing volatility surrounding equity markets, investors can look to buy energy stocks such as **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ)and **Vermilion Energy** (TSX:VET)(NYSE:VET) to benefit from a higher pricing environment.

Canadian Natural Resources

One of the largest energy companies in North America, Canadian Natural Resources was one of the few companies to maintain its dividend payout during the height of the COVID-19 pandemic. Its long-life, low-decline assets allow Canadian Natural Resources to generate free cash flows, even in a lower pricing environment.

It has exercised capital flexibility by reducing spending on low capital exposure assets, which showcases the strength of its underlying business. CNQ also has the ability to ramp up production with an increase in prices resulting in an even stronger balance sheet.

Shares of Canadian Natural Resources have already doubled in the last year but still offer investors a forward yield of 3.3%. In the first nine months of 2021, the company has reduced net debt by $5.4 billion and returned $2.4 billion to shareholders via dividends and share buybacks.

In Q3 of 2021, its net earnings stood at $2.2 billion while adjusted funds flow stood at $3.6 billion with a free cash flow of $2.2 billion.

CNQ's net debt declined to $15.9 billion at the end of Q3 and its liquidity stood at $6.2 billion. These robust financials allowed Canadian Natural Resources to increase dividends for the 21st consecutive year in 2021.

Vermilion Energy

Shares of Vermilion Energy plunged from $75.8 in June 2014 to $4.92 in April 2020. In the last two years, the stock returned a stellar 390% on the back of rising oil prices.

The company's funds from operations rose by 52% on a sequential basis to $263 million due to strong commodity prices. Its free cash flow also more than doubled to $196 million in Q3, while net debt fell by 12% since 2020 to $1.8 billion.

Vermilion expects to exit 2021 with net debt of $1.64 billion and a net debt to trailing FFO ratio of 1.8 times. Analysts expect VET stock to increase revenue by 57.3% to $1.8 billion in 2021 and by 23.9% to $2.22 billion in 2022. Its adjusted earnings per share are forecast at $5.5 in 2021 compared to a loss of $9.61 per share in 2020.

VET stock is fairly valued given its forward price-to-sales multiple of 2.3 and a price-to-earnings multiple of just 4.5, making it attractive to value investors.

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