2 Energy TSX Stocks Set to Soar as Oil Breaches US$130 Level

Description

As Russia-Ukraine tensions do not seem to be easing, the fate of Russian oil lies in limbo. The uncertainties in the global energy markets pushed the Brent crude oil price above US$130 per barrel today. Oil has rallied a massive 62% this year with the recent surge, reaching its 13-year high.

Most importantly, there is still not a concrete signal that could lessen the oil price momentum. The already tight energy markets could continue to see the demand-supply imbalance in the short to medium term. Moreover, the greater possibility of less oil from Russia coming to markets will further fuel prices higher.

What could slow down the oil prices?

Higher supply could bring down the oil prices immensely. However, energy producers are reluctant to increase the output. This is because they are reaping enormous benefits with the current production levels. North American oil and gas producers are seeing decade-high free cash flow growth since the pandemic. So, the demand destruction, driven by higher prices, seems the only thing that could pull crude oil prices lower right now.

However, it is feared that the next level of sanctions from the US and Europe will target Russian oil directly, which could send prices to US$150 a barrel. That will most likely increase inflationary pressures significantly, mainly in leading oil consumer countries like the US and India. As a result, equity markets across the globe might see much more weakness.

Interestingly, this will likely bring renewed upside in energy stocks. Since last year, Canadian oil and gas names have rallied more than 100%. The companies deployed their free cash flows into repaying debt and toward dividends. So, TSX energy stocks seem very well placed to ride the crude oil rally.

Here are two top Canadian energy stocks that could outperform in 2022 and beyond.

Vermilion Energy

A $4 billion, **Vermilion Energy** (TSX:VET)(NYSE:VET) is an international energy producer with assets in North America, Europe, and Australia. The stock has rallied more than 160% since last year and is currently trading at its 30-month high.

It expects to achieve $1.5 billion in free cash flows this year, a significant jump from $321 million in the last 12 months. This excess cash is forecasted to be put toward debt repayments, which will improve its balance sheet strength considerably.

Note that VET stock does not look too stretched from the valuation standpoint despite the rally. So, higher oil prices will likely drive it higher.

Tourmaline Oil

Like crude oil, natural gas also skyrocketed with increased uncertainties recently. Natural gas breached $5 levels today, nudging gas producer stocks higher. Canada's leading gas producer **Tourmaline Oil** (TSX:TOU) might continue to see notable earnings expansion this year.

TOU is up 22% this year and 126% since last year. The constrained supply of Russian gas to Europe could push prices significantly higher. The excess cash at Tourmaline has already made its way to shareholders in terms of dividends.

With further strength in gas prices, producers like Tourmaline should see another strong quarter and a surge in free cash flows. So, there is strong room for another special dividend from Tourmaline in the near future.

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3. TSX:VET (Vermilion Energy Inc.)

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