# 3 High-Flying TSX Energy Stocks That Doubled in 2022

## Description

Small-cap stocks generally outperform large caps in bull markets. This was recently seen in the TSX energy names, where the sector as a whole has been sitting on a handsome gain. However, small-cap TSX energy stocks have substantially outperformed larger peers. For example, so far this year, the TSX energy sector is up 40%, but small caps have returned more than 100% in the same period.



## TSX energy stocks continue to steal focus

Shares of **Obsidian Energy** (TSX:OBE)(NYSE:OBE), a $940 million oil and gas explorer, have gone through the roof this year, with a 115% gain so far. Moreover, they are up a mind-blowing 680% in the last 12 months.

Second on the list is **Athabasca Oil** (TSX:ATH). It has doubled so far this year and looks well placed for further gain. The oil and gas rally could continue to fuel ATH stock higher in the next few quarters. Another small-cap stock, **Surge Energy** (TSX:SGY) has also been on a roll with a 100% gain this year.

Crude oil prices are expected to stay higher for longer than these producers anticipated. With the current level of energy commodity prices, many Canadian oil and gas producers can repay debt faster, issue increased dividends, and look for inorganic growth.

So, earnings growth will most likely be there in almost all cases. What's important to note here is how these companies deploy their incremental cash flows.

## What drove the rally?

Athabasca Oil had $400 million in net debt at the end of December 2020, which has recently dropped to $172 million. In addition, higher oil prices improved its free cash flow, which it used to repay the debt. So, the strengthened balance sheet has mainly been behind the steep stock rally.

Obsidian also aggressively repaid its debt in the last few quarters. In the last 12 months, it reported a net income of $414 million against a loss of $771 million in 2020. Obsidian aims to produce around 25,000 barrels of oil per day this year.

Surge Energy, a liquids-weighted production company, aims to generate $171 million in free cash flows this year, far higher than its historical trend. Note that this is the company's base-case scenario assumes oil prices at US$85 a barrel WTI. So, as crude oil continues to trade at a premium to those levels, Surge could achieve its target much faster.

## The Foolish takeaway

Despite the rally, Canadian energy stocks do not look stretched from the valuation perspective. So, they could continue to move higher as oil and gas prices linger close to $100 levels.

Interestingly, crude oil prices were particularly strong in Q1 2022 amid the Russia-Ukraine war. So, expect a much higher increase in energy companies' earnings and free cash flows when they report their quarterly earnings by the middle of next month.

It will be interesting to see more efforts materializing on the deleveraging front. Also, the excess cash on the balance sheet could allow many Canadian energy companies to increase or reinstate dividends in the next few quarters. So, as they did in 2021, TSX energy stocks seem well placed to outperform this year as well.



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