



Record Earnings: Should You Buy MEG Energy Now?

Description

MEG Energy ([TSX:MEG](#)) reported record results for Q1 2022. Investors who missed the big rally in the stock in the past 18 months are wondering if more upside is on the way for MEG Energy and the broader oil [sector](#).

MEG Energy Q1 earnings

MEG generated record adjusted funds flow of \$587 million in the quarter or \$1.87 per share. On the operational side, production hit a record of more than 101,000 barrels per day.

MEG only spent \$88 million on capital expenditures in the quarter. The funds were primarily used for sustaining production and maintenance. As a result of the low capital outlays, MEG generated \$499 million in free cash flow for the first three months of 2022.

Management is using the cash windfall to reduce debt. The company announced or completed the repayment of US\$396 million during the quarter. Net debt at the end of Q1 was about US\$1.72 billion.

MEG Energy is also using excess cash to buy back stock. The board announced a plan to repurchase up to 10% of the outstanding stock under a new normal course issuer bid. Once net debt hits US\$1.7 billion, the company will allocate 25% of free cash flow to buy back shares. The remaining cash will be used to reduce debt. As soon as net debt hits US\$1.2 billion, MEG will allocate 50% of free cash flow to repurchase stock.

Finally, the company is targeting a net debt floor of US\$600 million. When that level is reached MEG will use 100% of free cash flow for the share-buyback plan. Based on current oil prices, MEG expects to be at this level in the back half of 2023.

MEG realized and average sales price of US\$83.55 per barrel in the quarter compared to US\$65.42 in Q4 2021. The company sold 58% of its sales volume at the U.S. Gulf Coast compared to 48% in the previous three months. This helped MEG get better average pricing for the product on top of the jump in the price of WTI oil.

Should you buy MEG Energy stock now?

MEG Energy took a beating during the pandemic rout. The stock traded near \$1.25 per share in March 2020. Today, it is close to \$20. Investors who had the courage to buy at the bottom have made a lot of money, but more gains could be on the way. The stock hasn't been this high since 2015, but it is still well below the \$50 mark it topped in 2011.

Volatility should be expected and any meaningful pullback in the price of oil could send the share price sharply lower, so I wouldn't back up the truck. However, with debt falling at a rapid pace and oil prices expected to remain elevated for the next two or three years, this stock could still move meaningful higher. Any news of extra sanctions against Russian oil could push oil prices back towards US\$120 per barrel. If that happens, MEG Energy's shares could catch a new tailwind. At the time of writing, oil trades near US\$103.

If you are an oil bull, it might still pay off to add a bit of MEG Energy stock to your portfolio today.

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Date

2025/08/21

Date Created

2022/05/03

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