



Why MEG Energy Stock Could Keep Surging

Description

Canadian energy companies started this earnings season with a bang last week and have rallied hard. Even on top of that growth, an upbeat outlook and higher-than-expected earnings growth have made them all the more attractive.

One highflier, **MEG Energy** ([TSX:MEG](#)), [reported record quarterly performance](#) on May 2 after market close. Shares were up more than 6% in trading the next day. Notably, MEG stock has gained 185% in the past 12 months and 700% since mid-2020. For comparison, TSX energy stocks on average have gained 100% since last year.

What's ahead: A bullish case for growth at MEG Energy

[TSX energy stocks](#) overall are in a good position in today's energy environment, with crude oil comfortably trading above the US\$100 a barrel. The companies' work to pay off debts also indicate strong growth potential ahead.

For MEG specifically, growth is likely come from its unhedged exposure to crude oil, which means it gets to reap the full benefits of surging oil prices. As a result of this riskier approach, MEG will likely see significant free cash flow growth.

Debt reduction remains a significant focus for MEG. At the end of Q1 2022, MEG had net debt of about US\$1.7 billion after announcing or completing repayment of about US\$400 million during the quarter. MEG Energy plans to deploy additional free cash flows toward shareholder dividends as it reaches future debt paydown targets — a welcome move for investors.

The bottom line on energy producers

Note that crude oil traded above US\$90 a barrel for just one month during the first quarter of this year.

In the second quarter, it's been over a month now that oil has been trading above US\$100 levels. So it's highly likely that energy producers will continue to see superior earnings growth, at least in the near

future. And at MEG, this incremental free cash will go toward higher dividend payments or stock buybacks, which could drive the company's shares even higher.

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Date

2025/08/20

Date Created

2022/05/03

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