



## 2 Top TSX Energy Stocks With Massive Upside Potential

### Description

The energy sector's dramatic outperformance so far in 2022 may have some investors thinking that the best is behind us. Well, don't make that mistake: The fact is that many energy stocks, such as **Baytex Energy** ([TSX:BTE](#)), are still trading in value territory. These stocks were coming off of such depressed prices that the market is still revaluing them — even today, Baytex Energy is trading for a mere 4.8 times cash flow.

I think the energy upcycle is still in its early stages. So without further ado, let's review two Canadian energy stocks that still have massive upside potential ahead.

### Baytex Energy: Rising From the Ashes

Baytex Energy is a \$4 billion Canadian oil and gas company. It's really well positioned at this point, with a high-quality portfolio of oil assets. These assets are well diversified, and they have 10 or more years of drilling inventory.

Baytex is also in an increasingly strong financial position. Strong capital efficiencies are driving cash flows, and the company has a lot of flexibility on potential uses for discretionary capital.

But things haven't always been this good. In the not too distant past, Baytex was drowning in debt — its very survival was in question. The scars of this difficult time live on: Today, Baytex shares are trading at record low valuations despite the company's changing fortunes.

For example, cash flow from operations soared 140% in Baytex's most recent results. Its balance sheet is the strongest it's been in eight years. The company reduced its net debt by 24% in 2021 and now stands at \$1.4 billion.

So what does this mean for us? Well, it means that investing in Baytex today is an opportunity for spectacular returns. In my view, this is an energy stock whose gross undervaluation won't last much longer. The revaluation has begun. But we can expect more positive news to accelerate it. To be specific, Baytex expects to achieve a net debt to EBITDA level of 1X by mid-2023. At that time,

management will look for other ways to return capital to shareholders, such as paying dividends. If we sit back and wait until these things happen, it will be too late because the stock will already reflect these positive developments. The best time to buy is now.

## Pason Systems: A Global Leader Bringing Technology to the Energy Industry

**Pason Systems** ([TSX:PSI](#)) is a \$1.3 billion oil services company and the leading provider of specialized data management services for drilling rigs. Through the difficult years of low commodity prices, Pason suffered along with the rest. Yet, its capital-light business model was its saviour. The company's balance sheet remained healthy. And although the company needed to cut its dividend, the company itself was never at risk. As far as energy stocks go, Pason is top-notch. And today, Pason Systems is recovering.

Revenue has soared 75%, cash flow 89%, and EPS an astounding 360%. All of this is thanks to the rapidly rising prices for oil and gas. As production activity is recovering, Pason's services have been proven to be invaluable. Its technology on the drilling site reduces risk, increases efficiency, and creates opportunity.

Pason stock trades at 18 times this year's expected earnings and 15 times 2023's expected earnings. EPS is expected to more than double this year and rise 18% in 2023. Looking even longer-term, Pason continues to invest in renewable energy opportunities, which strengthen its growth profile and add another layer of profitable earnings to its coffers.

### CATEGORY

1. Energy Stocks

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2. TSX:PSI (Pason Systems Inc.)

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