



2 UNDERVALUED TSX Energy Stocks to Buy Right Now

Description

It is still not late to get on board the energy rally. Higher crude oil prices should continue to boost Canadian energy names. Since last year, TSX energy stocks have doubled, beating broader markets by a wide margin. Here are two of the best energy stocks that will likely outperform in the long term.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)), Canada's oil sands giant, reported robust quarterly numbers this week. It earned \$2.95 billion in the first quarter of 2022, up from \$821 million in Q1 2021. Suncor also announced a dividend increase of 12% for Q2 2022.

Apart from the steep financial growth, Suncor management has signaled a willingness to work with activist investor Elliott management. The combined effect might drive the stock higher once the tumult in the broader market settles.

Elliott [disclosed](#) its 3.4% stake in Suncor late last month and demanded a few key changes to its board and operations. Elliott thinks the changes could unlock significant shareholder value in Suncor, which has been otherwise a laggard in the sector.

This year, SU stock has returned 42%, in line with the Canadian bigwigs. Oil and gas prices will likely keep trading strong, eventually expanding energy producers' financials. Also, a potential ban on Russian energy should drive oil and gas prices further higher. Note that TSX energy stocks are well placed with their improving balance sheets and increasing dividends.

SU stock is trading 10 times its earnings and looks attractive from the [valuation](#) perspective. A supportive macro environment and operational changes suggested by Elliott could create meaningful shareholder value.

Tourmaline Oil

Canada's leading natural gas producer **Tourmaline Oil** ([TSX:TOU](#)) is one classic bet to play the energy rally. While crude oil prices have soared 55%, gas has gone through the roof, with a 160% gain since last year. Thus, Canada's low-cost gas producer, Tourmaline is in a sweet spot with boosting earnings and swelling dividends.

Tourmaline has seen significant free cash flow growth and margin expansion in the last 12 months. Its gross margin shot up to 75% in Q1 2022 against 68% in Q1 2021.

Its superior free cash flow growth [propelled](#) another special dividend, the third one in the last nine months. So, it has paid or announced a total dividend of \$4.21 in the last 12 months, indicating a yield of 6%.

Notably, TOU stock has returned 140% in the previous 12 months. Despite the rise, it is still trading 11 times its earnings and looks undervalued. It will likely see another quarter of record performance when it reports Q2 2022.

Driven by its improving balance sheet, rallying gas prices, and highly attractive dividend profile, TOU stock could continue to climb higher.

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1. Energy Stocks
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2. TSX:SU (Suncor Energy Inc.)
3. TSX:TOU (Tourmaline Oil Corp.)

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