Scared of a Market Rout? Buy These 2 Value Stocks

Description

The **S&P/TSX Composite Index** advanced 2.03% on May 13, 2022, but fell 1.90% three trading days later. Market observers consider the 389.60-point drop as one of the worst market routs in two years. Also, the alternating ups and downs in short intervals reflect the growing worries of investors about a stagflation.

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Statistics Canada reported that consumer prices in April 2022 rose to 6.8% year over year. The culprits for the 0.1% increase from the previous month were food and shelter prices. If you take away gasoline prices, the year-over-year increase of the consumer price index (CPI) is 5.8%.

Despite the 1.78% retreat of the energy sector on May 18, 2022, its year-to-date gain is still a high of 52.99%. The materials sector is far second with +5.63%. Also, of the 11 primary sectors, seven are in negative territory. **Shopify** and its co-constituents in the technology sector are the worst performers (-36.99%).

Meanwhile, two value stocks appears immune to the massive headwinds. **Vermilion Energy** (TSX:VET)(NYSE:VET) and **MEG Energy** (TSX:MEG) have outperformed thus far in 2022. The former is up 58.22%, while the latter flies high with +68.8%. Both could deliver explosive returns in one year.

Earn two ways

Because of the strong start in 2022, Vermilion Energy operates producing assets in North America, Australia, and Europe. Because of the strong start in 2022, the $4.14 billion international energy producer reinstated dividend payments in the first quarter.

In the quarter ended March 31, 2022, petroleum and natural gas sales jumped 120% to $810 million versus Q1 2021. While net earnings dipped 43.21% year over year due to hedged losses, free cash flow (FCF) soared 287% to $304.5 million. According to management, the acquisition of Leucrotta Exploration soon should add +20 years of FCF generating tier-one drilling inventory.

At $25.10 per share, Vermilion's trailing one-year price return is 173.72% and pays a 0.51% dividend.

While the yield is modest, would-be investors can expect a higher return from price appreciation. Market analysts forecast an upside potential between 35.62% and 111.16% in 12 months.

Multi-bagger

MEG Energy isn't a dividend payer, although it could deliver far superior capital gains to prospective investors. The $6.06 billion energy company produces in situ thermal oil in the southern Athabasca oil region. Performance-wise, it is an excellent value stock, and the total return in 3.01 years is 279.19% (55.75% CAGR). At $19.75 per share, MEG outperforms the energy sector.

In Q1 2022, net earnings reached $362 million compared to the $17 million net loss in Q1 2021. The quarter's highlight was the 775.44% year-over-year increase in FCF to $499 million. MEG's president and CEO Derek Evans said, "The first quarter was a record quarter for MEG from both an operational and financial perspective."

Apart from the record quarterly production, Evans said the strong benchmark pricing and low differentials helped MEG generate record free cash flow during the quarter. Management plans to accelerate debt reduction and initiate share buybacks in Q2 2022.

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Steamrollers

Oil is on a downward trend lately due to concerns over the ban on Russian crude imports. Nonetheless, current prices are 40% higher from last year. If product markets remain strong and lower inventories persist throughout the year, Vermilion and MEG won't lose steam.

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