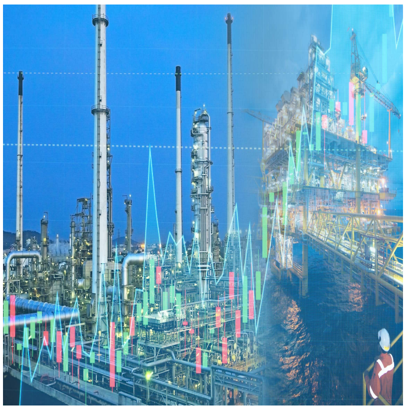

2 Oversold Oil Stocks to Buy in Bulk

Description

The energy sector (+74.13%) is the bright spot of the **TSX** so far amid the topsy-turvy environment in 2022. Nearly all energy stocks are top price performers, although **Birchcliff Energy** (TSX:BIR) **Peyto Exploration & Development** (TSX:PEY) appear to be trading below their intrinsic values.

Both oversold stocks are buying opportunities. Based on market analysts' forecasts, Birchcliff could climb by as much as 62.3%, while Peyto's average return potential is 38.3%. You can buy both in bulk for an enormous windfall in one year plus added income from dividends.

Maximizing free funds flow

Birchcliff Energy trades at $12.32 per share and pays a modest 0.65% dividend. Current investors are also up 90.99% year to date. The $3.26 billion intermediate oil and natural gas company operates in the Montney/Doig Resource Play in Alberta. Under its five-year financial plan, management expects cumulative free funds flow to reach $3.33 billion by 2026.

In Q1 2022, free funds flow reached $95.4 million compared to -$8.02 million in Q1 2021. Notably, net income soared 467% year over year to $125.79 million. Birchcliff's CEO Jeff Tonken said, "We continue to be committed to maximizing free funds flow generation and significantly reducing indebtedness."

Mr. Tonken added, "Based on the strength of the forward commodity price environment and our excellent results year to date, we have increased our full-year 2022 targets." He expects adjusted funds flow of $1.18 billion and free funds flow between $920 million and $940 million.

The best news to investors is the plan to increase the annual common share dividend by at least $0.80 per share in 2023. However, the target is subject to commodity prices and approval of the board of directors. Management said the increased dividend is achievable at an average WTI price of US$70 per barrel. The current WTI price is US$121.60 per barrel.

Historic profit margins

At $16.63 per share, Peyto's trailing one-year price return and year-to-date gain are 187% and 79.74%, respectively. Still, the oil stock is well positioned to rise further if commodity prices remain elevated throughout the year. Since the $2.72 billion oil, natural gas, and natural gas liquids (NGL) producer pays a 3.58% dividend, the return to would-be investors should be higher.

In Q1 2022, revenue and realized hedging gains increased 64% to $286.89 million versus Q1 2021. Earnings grew 154% year over year to $97.81 million, while funds from operations were 74% higher than in the same quarter in 2021. Peyto paid a total of $25.35 million in dividends, which represent a 1,436% increase from Q1 2021.

According to management, the combination of low total cash costs, higher production, and higher realized commodity prices resulted in an industry-leading operating margin. Peyto's historic profit margins during the quarter was the reason for the near record quarterly earnings. Also, Peyto expects to begin enjoying the full effect of higher commodity prices once its hedges roll off.

Fantastic picks

Birchcliff Energy and Peyton are among TSX's top performers in 2022. However, both oil stocks remain fantastic picks, as they seek their real values.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PEY (Peyto Exploration & Development Corp)

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