



Surge Energy (TSX:SGY) Stock Still Going Strong With its 170% YTD Gain

Description

Energy stocks are some of the sweet spots in the markets these days. Even after doubling since last year, they are still going strong and are not expected to lose sheen at least in the short term. Shares of a billion-dollar company **Surge Energy** ([TSX:SGY](#)) have gained 170% so far and are topping the charts this year. Notably, Surge looks well placed to gain more, driven by its strengthening balance sheet and record-high energy prices.

What's next for SGY stock?

Around a similar time last year, crude oil was trading close to US\$70 a barrel, while it is comfortably trading at US\$120 now. Higher energy commodity prices directly boost producers' earnings and margins, ultimately boosting their stock prices. Thus, Surge Energy stock is currently trading at a record-high \$12.7.

Surge Energy derives over 90% of its total revenues from crude oil, while the rest comes from natural gas and liquids. It expects to produce 21,500 barrels of oil per day in 2022. Higher crude oil prices substantially benefited Surge and resulted in a huge free cash flow expansion in the last few quarters.

For the last 12 months, it reported \$396 million in net income compared to a \$747 million loss in 2020. Apart from the financial growth, the improving balance sheet strength has been behind the stock's rally.

It had a net debt of \$407 million during 2020, which fell to \$316 million at the end of Q1 2022. Declining debt saves on interest expenses, which betters the company's profitability.

The Canadian energy sector has been in a sweet spot

Many oil and gas producers were highly indebted companies with poor leverage ratios only a few years back. However, there has been a paradigm shift in the leverage situation across the sector since the pandemic. Amid the oil and gas rally, producers have maintained capital discipline and have used excess funds to repay debts. They seem to be in no hurry to increase production and, thus, allocate

more for capex.

Surge Energy reported an average realized [crude oil price](#) of US\$104 per barrel during the last quarter. For the second quarter, crude oil has been trading close to US\$120 a barrel for the most part. So, the company will likely see even steeper financial growth in Q2 2022 than in the previous quarter. As a result, it might repay debt faster and could further increase shareholder dividends.

The Foolish takeaway

Interestingly, like the entire sector, Surge Energy stock could continue to soar higher. Although it has rallied steeply of late, the stock looks attractive from a valuation standpoint. In addition, its strong earnings growth prospects, improving balance sheet, and oil price strength will likely drive SGY stock higher going forward.

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