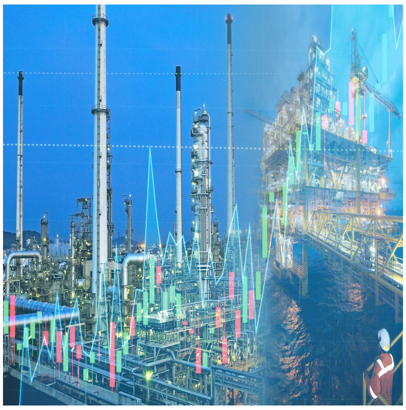

Why Tourmaline Oil Stock Still Looks Strong

Description

TSX energy stocks have undoubtedly overshadowed broader markets by a large margin this year. While the prior group has soared 60% so far, the **TSX Composite Index** has dropped by 8%. Oil and gas have been on a multi-year bull run since the pandemic. So, the expanding earnings and undervalued stocks witnessed immense investor interest in the same period.

More dividends for Tourmaline shareholders

One TSX energy stock that distinctively stands out is **Tourmaline Oil** (TSX:TOU). Canada's largest natural gas producer has seen substantial financial growth in the last few quarters. But that's not it. It has been raining dividends at Tourmaline Oil since last year.

It has increased regular quarterly dividends four times since the beginning of 2021. Apart from that, Tourmaline has issued special dividends thrice since last year. So, in the last 12 months, it has paid a dividend of $4.3 per share, implying a yield of over 6%!

Many Canadian energy producers have seen steep cash flow growth during this period. However, none of them have been as generous as Tourmaline. Apart from the incremental return, such dividends indicate the company's earnings visibility and strong balance sheet.

Interestingly, driven by consistent dividend hikes, the stock has rallied 120% since last year. So, it has really been a double delight for Tourmaline shareholders.

Tourmaline is a $23 billion leading gas producer in Canada and the fifth largest in North America. It aims to produce 500,000 barrels of oil equivalent this year.

Healthy growth outlook

The company forecast $3.9 billion in free cash flows this year, a steep jump from $1.5 billion last year. For the uninitiated, free cash flow is the excess cash after paying for operating expenses and capital expenses. So, this is cash the company can use to repay debt or to issue shareholder dividends.

Interestingly, Tourmaline Oil has been aggressively repaying debt, ultimately improving its balance sheet strength. At the end of 2020, it had total debt of $1.7 billion, which has now come down to $625 million. Lowering debt means lower interest expense, which ultimately improves profitability.

Tourmaline also offers a healthy margin profile compared to peers. Its gross margin averages above 70%, whereas the sector average is close to 60%. Its design improvements done last year and scale have played really well for its financial growth.

Valuation

Despite its handsome rally, TOU still offers decent growth potential from the current levels. It is currently trading 11 times its earnings, which is lower than its historical average. Moreover, although natural gas prices have come down a bit this month, they are still much higher than last year. So, energy producers will most likely have another quarter with superior growth. Driven by its solid dividends, undervalued stock, and strong balance sheet, Tourmaline Oil should create meaningful value for shareholders.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TOU (Tourmaline Oil Corp.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date

2025/08/24
Date Created
2022/06/22
Author
vinitkularni20