



## 2 Energy Stocks Fly Higher Amid Recession Fears

### Description

The [energy sector](#) is the undisputed winner in the first half of this year due largely to elevated crude prices. As of June 28, 2022, the year-to-date gain is 47.69%, and it's the only sector among 11 that is in positive territory heading into the third quarter.

However, the surge in energy prices or commodity boom could be coming to a close because of growing concerns over a slowdown in the global economy. While the year-to-date gain is impressive, the energy sector's gain early in the year was nearly 70%. The question now is whether Canadian energy stocks can maintain their strength to help the TSX finish strong in 2022.

In 2021, the TSX's annualized price return was 21.7% with energy as the top performer with +41.8%. On June 13, 2022, the Index fell below 20,000 and has never risen above that level since. Fortunately, **Athabasca Oil** ([TSX:ATH](#)) and **NuVista Energy** ([TSX:NVA](#)) continue to fly high amid recession fears.

### Record free cash flow

The trailing one-year price return and year-to-date gain of Athabasca are 161.62% and 117.65%, respectively. On Tuesday, the energy stock advanced 4.05% to \$2.59. Also, investors partake of the 2.71% dividend. This \$1.48 billion energy company develops thermal and light oil assets in the Western Canadian Sedimentary Basin.

In Q1 2022, management reported record adjusted funds flow (\$74.76 million) and record free cash flow (\$43.83 million). Notably, Athabasca's net operating income jumped nearly 130% year over year to \$102.99 million. According to management, it benefits from higher commodity prices and the low-decline, oil-weighted asset base.

The good news to investors is that dividends and share buybacks are on the table once Athabasca achieves its debt targets. Management plans to utilize its free cash flow and cash balances for the said purposes.

## Top price performer

On June 28, 2022, NuVista Energy advanced 7.94% to \$11.15 and had a year-to-date gain of 60.2%. The energy stock also pays a modest 0.49% dividend. Note that in 3.01 years, the total return is 328.85% (62.32% CAGR). This \$2.57 billion company explores, develops, and produces oil and natural gas reserves also in the Western Canadian Sedimentary Basin.

Management impressed investors with its record-setting financial and operating results in Q1 2022. Net earnings for the quarter increased 356.5% to \$70.3 million versus Q1 2021. The adjusted funds flow of \$190 million was 470% higher compared to the same quarter last year.

Apart from increasing production through high-return wells, NuVista used its growing adjusted funds flow to reduce net debt meaningfully. Because it has reached its initial debt target, management intends to begin returning capital to shareholders. The options include share repurchases, dividend payments, and highly selective M&As.

NuVista believes it can add significant value or higher level of returns to shareholders, because it has the necessary foundation, liquidity, and top-quality assets to continue adding significant value for shareholders. Based on market analysts' forecasts, the upside potential in 12 months is 46.5% (\$16.33).

## Under pressure

Canada's headline index gave up its strong, early gains in 2022 when inflation rose to unprecedented levels. The energy sector is under pressure to lift the TSX and improve its annualized return from 2021.

### CATEGORY

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