2 Oil & Gas Producers Could Deliver Gains of 170% or More in 2022

Description

The broad rally to start this week helped the **TSX** gain 167.50 points, or nearly 1%. Energy led the advance of all the primary sectors, although nine of 11 remain in negative territory year to date. Because of lower OPEC output in June and tighter supply, Brent crude and U.S. West Texas Intermediate (WTI) rose to US$113.18 and US$109.77 per barrel, respectively.

Stephen Brennock from oil broker PVM, said, the mounting supply shortages plus the absence of new oil production will force prices higher. From an investment perspective, and given the current situation, energy stocks should reign supreme for the rest of 2022.

If you don't own shares of **Vermilion Energy** (TSX:VET)(NYSE:VET) or **Tourmaline Oil** (TSX:TOU) yet, it's time to load up. The two oil and gas producers are among the high flyers, and an overall gain of more than 170% for the year is likely.

Ballooning free cash flow

Vermilion Energy shot up 8.73% to $26.64 on July 4, 2022. The significant one-day climb raised its year-to-date gain to 68.3%. Also, the current share price is 142% higher from a year ago. If market analysts' forecasts of another 37% climb to $36.46 are correct, this energy stock would have a total return of 233% for the year.

Besides North America, the $4.4 billion international energy producer has producing assets in Australia and Europe. According to management, its business model emphasizes free cash flow generation and returning capital to investors when economically possible.

In Q1 2022, Vermilion's free cash flow increased 287% to $304.52 million versus Q1 2021. While net earnings dropped 43% year over year, cash flows from operating activities jumped 186% to $341 million. But the good news to investors was the reinstatement of the quarterly cash dividends.

About 3% of Vermilion's $389.89 million funds flows from operating activities went to the payment of dividends. Management expects two recent strategic acquisitions to significantly strengthen its free cash flow profile over the near and long term.

Commodity pure play

Tourmaline, a commodity pure play, was the top producer in the tumultuous 2020. At $66.93 per share, the trailing one-year price return is 108.92%. So far this year, current investors enjoy a 76.59% gain and a 1.34% dividend. Market analysts covering this energy stock recommend a buy rating.

The 12-month average price target is $89.88, or a return potential of 32%. If it hits the same price by year-end, Tourmaline's total return for 2022 would be 170.23%. Historically (3.01 years), the return of this outperforming oil & gas stock is 374.76% (67.52% CAGR).

In Q1 2022, Tourmaline's quarterly cash flow ($1.07 billion) and quarterly free cash flow ($618 million) were both record highs. While net earnings growth was only 5% versus Q1 2021, net debt went down 53% to $769 million.

The $22.81 billion producer of lowest-emission and lowest-cost natural gas commits to return the majority of free cash flow to shareholders. Management plans to increase its base dividend, declare special dividends, and do share buybacks.

Outpace inflation

Analysts at **CIBC** Capital Markets expect the higher-for-longer commodity price cycle to outpace cost inflation in 2022. It augurs well for the oil and gas sector, although rising costs and taxes could dilute free cash flow of producers.

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