Is MEG Energy Stock a Buy After its Recent Dip?

Description

MEG Energy (TSX:MEG) stock has seen more than 28% value erosion in the last 20 days. Meanwhile, the **TSX Composite** has seen a 7.5% drop during the same period. Nonetheless, MEG stock still continues to outperform the Canadian market gauge by a huge margin in 2022, as it has risen by more than 43% year to date compared to a 10.8% drop in the main index. In this article, we'll analyze the recent growth trend in its financials and explore whether MEG stock is worth buying after the recent correction.

MEG Energy's key focus

To give you a quick overview, MEG Energy primarily focuses on sustainable thermal oil production in Alberta's southern Athabasca oil region. In recent years, the company has increased the utilization of steam-assisted gravity drainage extraction methods to develop innovative enhanced oil recovery projects to reduce carbon emissions and achieve economic oil recovery.

MEG stock currently has a market cap of about $5.4 billion, as it trades at $17.23 per share. By geographical segments, nearly 56% of its 2021 revenue came from the United States, while its home market contributed the remaining 44%.

Analyzing its latest financial growth trends

After the COVID-related operational challenges drove its top line down by 41.7% YoY (year over year) in 2020, its overall financial growth trend came back on track much sooner than expected in 2021. As a result, the company registered an 88.5% jump in its total revenue last year to around $4.3 billion, exceeding analysts' estimates. Surging demand and prices for energy products also drove its margins higher, as MEG registered an outstanding 148% YoY jump in its adjusted earnings in 2021 to $0.96 per share.

The Calgary-based energy firm maintained its solid top- and bottom-line growth in the first quarter of 2022. Its revenue for the quarter rose by 67.5% YoY to $1.5 billion. And its adjusted earnings in Q1

2022 stood solid at $1.15 per share compared to its adjusted net loss of six cents per share in Q1 2021. Record funds flow from operating activities and record bitumen production volumes helped the company post strong financial growth.

While MEG is yet to announce its June quarter results, Street analysts estimate its Q2 earnings to be around $1.02 per share, expecting an eye-popping 364% YoY growth.

Focus on debt repayments

At the end of June, MEG Energy provided an update about its continued debt repayments. In the second quarter, the energy firm repaid US$379 million of its total outstanding indebtedness. With this, MEG has now repaid nearly US$2.2 billion of its debt since 2018 — significantly improving the company's debt position and reducing risks to its investors.

Is MEG stock worth buying after the recent correction?

MEG Energy has seen big progress on debt reduction and financial growth in the last few years. These positive factors could be helping MEG stock sustain healthy gains year-to-date gains, despite its recent correction. The company is expected to announce its second-quarter results in the next couple of weeks. Given Street's high expectations of its continued strong financial growth in Q2, I expect MEG stock to stage a recovery in the near term, making it worth buying for long-term investors after its recent dip.

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