



Why Tourmaline Oil (TSX:TOU) Stock Seems Ready to Break Out

Description

TSX energy stocks faltered recently, as oil and gas prices fell significantly on recession fears. However, despite the recent weakness, natural gas producer stocks outperformed their oil counterparts. That's because natural gas prices are still higher than last year and will likely remain so due to seasonally higher demand in the U.S. and Europe.

TSX natural gas stocks outperform

Canadian leading gas producer **Tourmaline Oil** ([TSX:TOU](#)) is sitting on nearly 70% gains for the year. However, it has dropped 13% from its record highs recently, while TSX oil-producing names have tumbled more than 25%!

Tourmaline Oil owns 13 natural gas plants in the Alberta Deep basin and operates five gas-processing facilities. It has been in a sweet spot since the pandemic. Driven by a solid surge in natural gas prices, the company is expected to generate \$4 billion in free cash flows this year.

Tourmaline aggressively repaid its debt amid these windfall gains. Apart from deleveraging, it also distributed cash as shareholder dividends in the last few quarters. It has paid a total dividend of \$4.3 per share in the last 12 months, implying a yield of 6%.

Amid the energy crisis, natural gas supplies have been at the centre stage of the Russia-Europe tensions recently. As a result, European countries will likely see constrained supply from Kremlin as a retaliatory action. Moreover, heat waves in Europe and the U.S. could increase the demand, pushing prices further north.

The potential demand-supply imbalance has pushed natural gas prices notably higher in the last two weeks. The same momentum has been missing in [TSX natural gas stocks](#) like TOU.

Tourmaline Oil: Expect strong earnings growth in Q2

Moreover, Tourmaline will report its Q2 2022 earnings on August 3. According to analysts' estimates compiled by *Yahoo Finance*, Canada's largest natural gas producer will report earnings of \$2.25 per share for the quarter ended on June 30. In comparison, it reported earnings of \$1.4 per share in Q2 2021.

It will most likely be another blockbuster quarter for Tourmaline. Driven by a strong price environment and higher production, the company will likely see much higher earnings growth in the upcoming release.

Notably, steep earnings growth is quite expected. What will cheer investors more is another special dividend or higher-than-expected debt repayments during the quarter. A significant free cash flow growth will facilitate faster deleveraging and allocation for shareholder payouts.

Besides, the management's commentary for the next few quarters and balance sheet outlook will also be important to watch. These factors will also drive the stock in the short to medium term.

Peer natural gas stocks like **Birchcliff Energy** and **ARC Resources** will also likely see steep financial growth in Q2 2022.

Bottom line

Tourmaline Oil stock has returned 110% in the last 12 months, way outperforming TSX stocks. Its undervalued stock, stable dividends, and supportive price environment make it an appealing bet in the current scenario.

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