



Tourmaline Oil (TSX:TOU) Delights Again With a Massive Special Dividend

Description

Tourmaline Oil ([TSX:TOU](#)) is one of the few stocks hitting all the right financial levers.

Canada's largest natural gas producer reported another quarter of blockbuster earnings on July 27, which was in line with expectations. It has announced yet another special dividend, a third one this year. While broader markets are reeling under pressure, Tourmaline Oil stock stands out among top performers, returning almost 85% this year.

Tourmaline Oil reports solid Q2 numbers

Tourmaline Oil reported record free cash flow of \$1.1 billion for the quarter ended June 30, 2022. Thanks to higher natural gas prices and higher production, the company saw massive financial growth in the quarter. Notably, it far exceeded its long-term net debt target during the quarter. At the end of it, Tourmaline had net debt of \$430 million, much lower than the targeted \$1 billion.

Tourmaline declared a special dividend of \$2.00 per share to be paid on August 12. In the last 12 months, it has paid a total dividend of \$6.28 per share, implying an annual yield of 9%!

That's a terrific total return from the gas giant. [Canadian peer energy bigwigs](#) yield around half of that at the moment.

Balance sheet strength improvement continues

With these windfall gains, Tourmaline is in much stronger shape in the last few quarters. The balance sheet has become sounder with a strong liquidity position and low leverage. While its debt-to-equity ratio was close to 0.2x during the pre-pandemic period, it has come down to 0.05x recently.

Canadian energy companies are deploying their incremental cash flows for debt repayments and returning the rest of it to shareholders. Several of them are opting for the share buyback route, and some for dividend hikes. Tourmaline has preferred the latter route, where a significant chunk has gone

to higher dividends. Since the start of last year, the company has increased its regular quarterly dividend five times and issued a special dividend four times.

Importantly, the generous dividend payments underline the company's balance sheet strength and the management's conviction in its future earnings growth.

What's next for Tourmaline Oil?

At a market cap of \$25 billion, Tourmaline Oil is Canada's largest and North America's fifth-largest natural gas producer. It has seen massive growth in the last couple of years. Notably, scale and engineering design improvements have improved the margin profile. While its gross margins averaged around 60% in the pre-pandemic period, they have been consistently above 70% in the last few years.

The management expects free cash flows of \$3.5 billion for 2022 and 2023 each. That's way higher than its free cash flow of \$1.49 billion in 2021.

Given the strong growth prospects and superior dividend profile, TOU stock currently seems undervalued. It could continue to rally higher on the back of gas price strength.

Even if oil-focused stocks witness a pullback on relatively volatile crude oil prices, gas-focused stocks like TOU will likely stay strong. That's because natural gas prices should remain elevated for longer due to seasonally higher demand and constrained supplies in Europe.

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