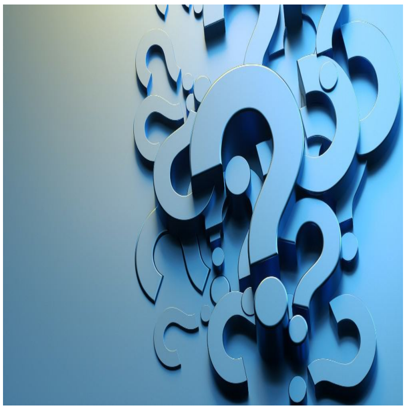

Will NuVista Energy (TSX:NVA) Stock Touch $20 This Year?

Description

Canadian small-cap energy stocks have remarkably outperformed their larger counterparts recently. Among them, natural gas-focused stocks have significantly topped the charts. For example, **NuVista Energy** (TSX:NVA) stock has been up 225% since last year, notably beating its oil-focused peers.

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NuVista Energy stock continues to ride higher

NuVista is a $2.6 billion oil and gas production company, mainly working in the Western Canadian Sedimentary Basin. More than 55% of its production in 2021 was natural gas, which has seen a stronger price rally than oil since last year.

The post-pandemic energy commodity rally has changed the fate of oil and gas producers in a big way. Besides superior earnings growth, the rally and producers' capital discipline notably improved their balance sheet strength.

NuVista Energy stock was trading below $1 during the mid-2020s. Perhaps, it touched record levels of $14.3 this May, marking a massive 1,400% return in just two years.

And interestingly, the rally is not expected to fade anytime soon, given the continued strong price environment and solid earnings growth. NuVista will report its Q2 2022 earnings on August 3.

What's next for NVA stock?

According to analysts' estimates, NuVista will report earnings of $0.45 per share for the quarter that ended on June 30, 2022. In the same quarter last year, it reported a loss of $0.05 per share. That's massive growth coming in back-to-back quarters.

Almost the entire industry is seeing record earnings growth and free cash flows this year due to a war in Europe that intensified the oil supply woes. Energy producers, including NuVista, are seeing windfall cash flows this year. They are sitting on a mammoth cash pile, even after investing enough for future growth and repaying a significant chunk of debt.

NuVista's net debt-to-EBITDA ratio has come down from six in early 2021 to 0.8 in Q1 2022. That's quite a feat for a once-indebted company. Importantly, the company aims to reach net debt levels of $200 million by the end of this year from the current $500 million. This seems achievable given the rallying gas and oil prices. Moreover, once it achieves the stated net debt target, shareholders can expect a larger chunk of free cash flows to be diverted to dividends.

A stronger balance sheet is a much bigger achievement than the steep quarterly earnings growth. This is because, reducing debt lowers the interest expense, ultimately boosting the company's bottom line. Also, a strong liquidity position and low leverage make a business less susceptible to external shocks. That's why energy stocks have been rallying crazy since the pandemic. Broader markets have lost 8%, while TSX energy stocks have returned a decent 50% this year.

The Foolish takeaway

NuVista Energy will most likely continue to see spectacular earnings growth and more deleveraging in the next few quarters. Despite such a vertical move, the stock is still trading seven times its earnings. So, we might keep seeing strong movement from NuVista Energy well beyond its upcoming quarterly release. $20 seems possible for NVA stock if oil and gas continue to ride higher and if it achieves its net debt target sooner.

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