Small OPEC+ Oil-Output Hike: Buy More Energy Stocks?

**Description**

The Oil Producing Exporting Countries and Russia, or OPEC+, agreed to increase production output by 100,000 barrels per day next month. While the decision of the 23-nation alliance made headline news, the hike is small, if not insignificant, to cool down oil prices.

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U.S. president Joe Biden visited Saudi Arabia recently in the hope that the oil-output hike would be bigger. Bob McNally, president of consulting firm Rapidan Energy Group, said the increase is miniscule and almost imperceptible. He added that OPEC+ did the absolute minimum, and that it was a purely symbolic gesture.

However, investors are likely to hold onto their oil stocks or accumulate more. While the energy sector declined 4.22% on mid-week, it's still up 36.56% year to date. In 2021, the collective annualized return of the sector's constituents was 41.8% — the highest among the 11 primary sectors.

## Strong second half

Eric Nuttall, a partner and senior portfolio manager with Ninepoint Partners LP, is an oil bull. He predicts a very, very strong second half to this year for oil producers. He said, "We were structurally under-supplied heading into this year. We were already approaching the exhaustion of OPEC spare capacity."

According to delegates of the oil cartel, the group's limited reserves of spare production capacity were best kept for later this year. The members believe crude markets will tighten, as the U.S. winds down its release of emergency stockpiles. The International Energy Agency (IEA) confirmed that idle supplies in the Middle East are down to "razor-thin" levels, or 2% of world demand.

## Record cash flows

The cheap but profitable investment options today are **Athabasca Oil** (TSX:ATH) and **NuVista Energy** (TSX:NVA). Both energy stocks are flying high with their 81.51% and 50.43% year-to-date gains, respectively. The former trades at $2.16 per share, while the share price of the latter is $10.47.

Athabasca reported record adjusted funds flow ($85 million) and free cash flow ($36 million) in the second quarter (Q2) of 2022. According to management, it's well positioned and low leveraged, because the company generates significant free cash flow, because of the low-decline, oil-weighted asset base.

The $1.26 billion developer of thermal and light oil assets projects to end 2022 with an adjusted funds flow of $350 million, including free cash flow of $220 million. For the period 2022 to 2024, its free cash flow should be around $950 million.

Nuvista's free adjusted funds flow in Q2 2022 increased 30% to a record $200 million versus Q1 2022. Net earnings reached $178 million, or 153% year over year. Management said that the production and operational performance during the quarter exceeded its expectations.

The $2.41 billion oil and natural gas company has the strength and increasing momentum to deliver more in 2022. Market analysts have a 12-month high price target of $20, or a 91% climb from its current share price. The capital gains from NuVista will more than compensate for the non-payment of dividends.

## No relief for consumers

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Before the OPEC+ decision, Brent and West Texas Intermediate crude futures fell to US$96.78 and US$90.66 per barrel, respectively. It was the weakest performance since February 2022. Because of the token increase in production, the market will remain tight. Thus, there's no relief for consumers who will have to bear the elevated oil prices.

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