Top TSX Stocks to Buy as Natural Gas Prices Touch Records

Description

TSX energy stocks have fallen off a cliff lately, losing nearly 35% since June. However, that's only one side of the story. Oil producer stocks have been mainly trading weak recently, because crude oil saw concerning weakness on recession fears. Natural gas, however, has been trading strongly and is currently trading close to record highs. As a result, Canadian natural gas producer names have notably outperformed oil stocks in the last three months.

Why natural gas prices are so high this year

Natural gas prices have risen 150% since last year. This is mainly because of the seasonally higher demand. Natural gas is used to heat up homes as well as to generate power. So, a hotter summer recently led to higher usage in the U.S., leading to lower natural gas inventory levels. Moreover, as temperatures drop in winter, natural gas demand could surge even higher in the next few months.

Notably, natural gas prices in Europe are significantly higher than in the United States. Europe's large reliance on Russia for its natural gas needs has mainly been behind the surge. While that could have a limited impact on U.S. natural gas prices, they still contribute to the bullish sentiment.

Higher gas prices have substantially benefited some Canadian gas producers in the last few quarters. It won't be surprising if they continue handsome financial growth. Here are two of them.

Tourmaline Oil

Canada-based **Tourmaline Oil** (TSX:TOU) is the biggest natural gas producer in the country. It generates almost 80% of its revenues from natural gas, and the rest comes from crude oil and natural gas liquids.

For the first half of 2022, Tourmaline Oil reported free cash flows of $1.5 billion, which was an increase from $157 million for the same period in 2021. Investors should note that Tourmaline's realized natural gas prices were at $5.59/mcf in the first of 2022, which led to such handsome financial growth.

Currently, natural gas prices are trading way higher than those levels, which will likely drive even steeper free cash flow growth in the third quarter of 2022.

Tourmaline has been quite generous with these cash flows. It has rewarded shareholders with solid dividend hikes and special dividends since last year. In the last 12 months, it has paid a total dividend of $6.7 per share, implying a dividend yield of 9%! Moreover, the bigger shareholder return came from the stock appreciation. TOU stock has surged a jaw-dropping 150% since last year, mimicking the natural gas rally.

It could continue to benefit from the strong price environment and higher production. The stock offers superior growth prospects due to further dividend growth, strong earnings growth potential, and undervalued stock.

Birchcliff Energy

Birchcliff Energy (TSX:BIR) is another name that has benefitted from the natural price rally. BIR stock has gained 130% in the previous 12 months, outperforming TSX energy stocks by a wide margin. It is currently trading close to its eight-year highs.

Its free cash flows came in at $254 million for the first quarter of 2022, a massive recovery from negative free cash flows last year. They were mainly used for deleveraging, which notably strengthened its balance sheet. The management intends to issue dividends of at least $0.80 per share next year, an almost 10-fold increase from the current levels.

Birchcliff's steep payout hike prospects, undervalued stock, and strong balance sheet will likely keep creating significant shareholder value, at least for the next few quarters.

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Author
vinitkularni20