



ARC Resources (TSX:ARX): A Safer Pick in Uncertain Market Conditions

Description

Investors have numerous profitable options on the **TSX** in 2022, particularly among Canadian oil stocks. The energy sector has been on a tear for most of the year due to higher commodity prices. Investors are taking the opportunity to ride the strong rebound after the global pandemic wreaked havoc on the industry in 2020.

One stock that should rank high on your buy list is **ARC Resources Ltd. (TSX:ARX)**. Besides being a prolific income provider, Canada's third-largest natural gas producer and largest condensate producer is a safe pick in [uncertain market conditions](#) and heightened volatility.

As of August 19, 2022, ARC (+60.9%) was outperforming the energy sector (+43.7%) and broader market (-5.2%) year to date. In the last 3 years, the energy stock produced a healthy return of 253.2%, a compound annual growth rate (CAGR) of 52%. At \$18.27 per share, the trailing one-year price return is 138.5%.

Competitive advantages

ARC takes pride in its diverse portfolio of high-quality, resource-rich properties. The \$12.1 billion oil & gas company operates in the Montney region in Alberta and northeast British Columbia, where the assets have significant growth potential. According to management, the oil and gas producer creates shareholder value through a combination of stable plays, technical expertise, and a risk-managed approach.

The low-cost operations and geographic diversity also position ARC to meet energy demands well into the future. However, management wants to emphasize that responsible development has long been a core focus of the company and adds it has always been at the heart of how ARC does business.

Its President and CEO, Terry Anderson, said, "Top-decile environmental and social performance, transparency, and Indigenous and stakeholder engagement will be imperative as the energy transition continues." One of the primary goals is to become Canada's progressive energy leader.

Record free funds flow

In Q2 2022, ARC once again showed the strength of its market diversification strategy by pulling in higher average prices than local benchmarks in both natural gas and condensates. This pricing edge contributed to glowing financial results for the three months ended June 30, 2022. Net income reached \$762.9 million compared with a \$123 million net loss in the year-ago quarter. ARC's net income of \$693.5 million for the first half of 2022 was 1,160.9% higher compared to the same period last year.

Cash flow from operating activities increased 139.6% year over year to \$1.09 billion. The free funds flow of \$677.3 million (+67% from Q1 2022) during the quarter was a 26-year record. The higher free funds flow per share helped the company strengthen the balance sheet further and return additional capital to shareholders.

Meaningful and growing dividends

Management reiterated that the dividend serves as the primary mechanism to return capital to shareholders over the long term. Apart from maintaining a strong balance sheet and delivering competitive returns, the company commits to paying a meaningful dividend.

Furthermore, the payout should grow with the underlying profitability of the business and be sustainable through the commodity cycle. In Q2 2022, \$406 million or 40% of ARC's free funds flow went towards dividend payments and share buybacks. If you take a position today, the dividend yield is a decent 2.65%.

ARC Resources is indeed a solid energy stock today. Would-be investors can receive recurring income streams from dividends and could also reap a considerable capital gain from price appreciation.

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