Rise From Obscurity: Tamarack Valley (TSX:TVE) Is a “Strong Buy” Today!

Description

Many lesser-known energy stocks have been on investors’ radars since the return of energy demand after the end of COVID lockdowns. From a dismal -30.8% loss in 2020, the energy sector delivered a 41.8% overall return in 2021. The magnificent comeback made energy the top-performing sector for the year, unseating technology (-18.3%) from the throne.

Thus far this year, the collective gain of energy constituents (+43.65%) is even higher, despite the volatility of oil prices lately. As of August 19, 2022, only four of the 11 primary sectors are in positive territory. Also, the **TSX** is down 5.24% year to date.

Mind-blowing windfall

The windfall from oil and gas companies in nearly all energy industry sectors is mind-blowing. Besides price appreciation, investors welcomed dividend increases due to soaring profits and robust free cash flows (FCFs). **Tamarack Valley Energy** (TSX:TVE) is one of the junior players that has risen from obscurity.

This energy stock rewarded investors with a 204% total return last year. On October 27, 2021, the board of directors announced a return of capital framework and approved a dividend policy. The $1.83 billion oil and gas exploration and production company paid its inaugural monthly cash dividend on February 15, 2022.

According to management, the key focus is to provide shareholders with a sustainable monthly base dividend, and the payout should grow over time in conjunction with earnings growth. It will also pursue strategic merger and acquisition opportunities to enhance and grow sustainable free funds flow for shareholders.

Brian Schmidt, president and chief executive officer of Tamarack, said, “2021 was a transformational year. Operationally, we exceeded our full-year guidance and maintained a strong balance sheet.” Tamarack’s net income for the year was $390.5 million compared to the $311.7 million net loss in the prior year.

Year-to-date business performance

In the first half of 2022, Tamarack’s net income fell 26% to $169.9 million versus the same period in 2021. However, cash flow from operating activities increased 342% to $347.5 million. The average daily production (light and heavy oil, natural gas, and natural gas liquids) increased 51% to 42,563 barrels of oil equivalent per day (boe/d).

Management said the 20% increase in its base dividend in the second quarter (Q2) 2022 indicates Tamarack’s commitment to long-term sustainable free funds flow per share growth. If you invest today, the share price is $4.17, while the dividend yield is 3.06%. Because of its financial flexibility and future potential acquisitions to bolster long-term inventory resiliency, Tamarack aims to deliver higher returns to shareholders.

Strong buy

The energy stock is a viable investment prospect, as the company repositions into focused oil plays with long-term development prospects. Tamarack’s trailing one-year price return is 91.12% at its current share price. Market analysts covering the energy stock recommend a strong buy rating and forecast an 86% upside in 12 months ($7.77 per share). The price forecast appears plausible for three compelling reasons.

Tamarack Valley has a low-decline, stable production base. There’s also room for asset value expansion as the assets boast highly economic production capacity and ample inventory. Thus, the company can sustain meaningful production and simultaneously generate significant free funds flow.

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