2 Top TSX Energy Stocks to Buy as Crude Oil Soars

Description

Many Canadian oil and gas stocks have seen blockbuster earnings growth this year. But not all of them have received similar affection from investors. Some are still flying under the radar and offer immense growth prospects. Here are two of them.

MEG Energy

Stellar earnings growth and balance sheet improvement have been the theme for the Canadian energy sector this year. Mid-cap energy company **MEG Energy** (TSX:MEG) has been no different. It reported free cash flow of $507 million for the second quarter (Q2) of 2022, a massive 365% growth compared to Q2 2021.

Despite the strong price environment, energy producers have shown noteworthy capital discipline since the pandemic. They have not apportioned capital to increase production. Instead, they kept the production levels largely similar and used the excess capital to repay debt. MEG's net debt fell to $2 billion at the end of Q2 2022 against $2.6 billion last year.

These fundamental developments have effectively reflected in its stock price. MEG stock is up 65% this year and 140% in the previous 12 months. Notably, the stock still does not look overvalued after the rally. It is currently trading at a free cash flow yield of 33% and a price-to-earnings ratio of seven. It looks discounted and suggests a handsome growth, at least for the next few quarters.

As free cash flow growth continues, MEG will likely achieve its debt target and can allot more capital to shareholders. So, investors can expect sizeable capital allocated towards share buybacks and dividend hikes. MEG Energy has become significantly stronger on the balance sheet and profitability front in the last few quarters. The stock will likely see a recovery towards its recent highs.

Surge Energy

Small-cap names notably outperform their larger counterparts in bull markets. Among TSX small-cap energy stocks, **Surge Energy** (TSX:SGY) looks like a decent bet in the current scenario.

As of writing, SGY stock is trading 20% lower than its 52-week high in early June. However, it looks well placed with strong fundamentals and oil prices in recovery mode. In the previous 12 months, SGY stock has soared 156%, notably beating TSX energy stocks.

Its free cash flow jumped to $48 million so far this year. In the same period last year, Surge Energy generated negative free cash flows. It also deployed the excess cash to debt repayments. The company is still sitting on a decent cash pile.

Surge Energy is expected to pay a dividend of $0.42 per share, implying a decent dividend yield of 4%. Note that it began paying dividends in June this year. Like peers, it will raise dividends once it achieves the net debt target.

SGY stock is trading at a free cash flow yield of 30% and a price-to-earnings ratio of five. It will likely see meaningful value creation based on its undervalued stock, improving balance sheet, and solid earnings growth prospects.

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