Why Tamarack Valley Energy (TSX:TVE) Stock Could Change Course Soon

Description

It has been a very, very strong year for the energy sector. Even if Canadian oil and gas stocks have fallen off a cliff of late, they are still sitting on a huge outperformance against broader markets. One small-cap TSX energy stock that looks well placed in the current environment is **Tamarack Valley Energy** (TSX:TVE).

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Tamarack Valley Energy and its recent acquisition

The stock has dropped 40% since June and has been one of the laggards in the last three months. However, considering the strong price environment, solid earnings growth prospects, and its latest acquisition, Tamarack stock looks well placed for a robust recovery.

It is a $1.7 billion oil and gas exploration company that produced 44,000 barrels of oil per day in the second quarter (Q2) of 2022. Interestingly, around 40% of its production is light oil, which sells at a large premium. Moreover, its high-quality, low-decline asset base positions it on a firm footing at higher oil prices.

This week, Tamarack announced its deal to acquire Deltastream Energy for $1.4 billion. Deltastream is an economical, low-decline Clearwater oil play. After the acquisition, Tamarack is expected to produce 70,000 barrels of oil per day. It claims that with current oil prices, oil wells in Clearwater will pay out in fewer than six months, making them one of the most economical oil plays in North America.

To be precise, the management said that these assets have a free cash flow breakeven West Texas Intermediate price of US$32 per barrel. So, it will be profitable, even at much lower oil prices. Note that crude oil is currently trading at 2.5 times those levels.

The stock did not show any enthusiasm for its recent acquisition. And that could be due to the premium paid for the deal and the stock involved, particularly at these depressed prices. But its quarterly earnings will likely prove the importance of the deal.

TVE stock: Is Tamarack Valley Energy stock a good buy?

With higher production and sky-high oil prices, energy producers are seeing enormous earnings growth this year. Tamarack has been no exception. Plus, Tamarack will likely see much steeper earnings growth next year and beyond, given its higher output from the lucrative Clearwater oil play. Notably, the stock is trading at just four times its earnings and at a free cash flow yield of 40%. That seems like a highly rewarding bet.

Plus, Tamarack currently pays a monthly dividend of $0.01 per share, implying a decent yield of 3%. It has recently announced a dividend hike of 25%, which will be effective once it closes the Deltastream acquisition.

Energy producers are increasingly focusing on repaying debt aggressively and strengthening their balance sheets. In the case of Tamarack, it currently has a net debt of $1.4 billion and a reasonably strong net debt-to-EBITDA ratio of 0.6.

Though TSX energy stocks have rallied this year, many names have not run up to their full potential. The next leg of the crude oil rally could fuel those stocks. Tamarack Valley could be one of them, given its undervalued stock, solid earnings growth prospects, and juicy dividends.

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