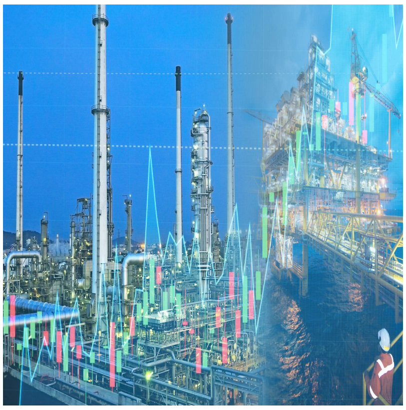

Strong Buys Under $10: 3 Energy Stocks With More Upside Ahead

Description

The Organization of Petroleum Exporting Countries and its allies, or OPEC+, will reduce production quotas by 100,000 barrels per day (bpd) for October 2022. A reduced forecast for global market demand from 900,000 bpd to 400,000 bpd prompted the cartel to slash production.

Nonetheless, the **TSX's** energy sector continues to benefit from the favourable pricing environment. So far this year, three small-cap energy stocks have rewarded investors with enormous gains. All of them trade at less than $10 per share, but there should be more upside ahead.

Industry-leading services

At only $5.93 per share, the year-to-date gain of **Step Energy Services** (TSX:STEP) is now 268.32%. Had you invested $5,000 on year-end 2021, your money would be worth $18,416.15 today. Market analysts covering the stock recommend a buy rating. Their 12-month average price target is $10.50, or a return potential of 77%.

The $407.8 million energy services company provides fit-for-purpose solutions to clients in North America's oil and gas equipment and services industry. Step's services include coiled tubing, fluid and nitrogen pumping, and hydraulic fracturing solutions. According to management, the coiled tubing procedures, fracturing methods, nitrogen gas, and fluid pumping processes are all industry leading.

In the second quarter (Q2) 2022, the $273 million revenue was the strongest quarter in Step's history. Net income for the quarter ended June 30, 2022, reached $38.06 million compared to the $10.58 million net loss in Q2 2021. Despite persistent recession fears, management anticipates the current strength in oil and natural gas prices to continue throughout the rest of 2022.

Soaring cash flows

Surge Energy (TSX:SGY) is a top pick for its stellar performance in 2022. At $9.06 per share, the year-to-date gain is 107.57%. According to management, the continued demand growth and supply disruptions from years of a global underinvestment in oil projects led to today's favourable commodity pricing environment.

This $726.87 million intermediate oil company acquires and develops high-quality, light- and medium-grade crude oil conventional oil reservoirs. It also uses proven technology to enhance ultimate oil recoveries. While net income in Q2 2022 was only $72 million compared to $307 million in Q2 2021, cash flow from operating activities increased 818% year over year to $75.79 million.

According to management, it should have incremental cash flow and free cash flow in 2023 and beyond after the fixed-price oil hedge volumes expire by year-end 2022. Surge also paid its first monthly cash dividend ($0.42 per share) on July 15, 2022.

New corporate records

Crew Energy (TSX:CR) set several new corporate records in Q2 2022. Its average production increased 31% to 35,044 bpd versus Q2 2021, while free adjusted funds flow grew 351.52% year over year to $130 million. Notably, net income reached $88.69 million compared to the $23.14 net loss from a year ago.

Expect this $908.55 million growth-oriented natural gas and liquids producer to continue advancing its momentum and strategic direction. Management also expects to drive its two-year plan to completion in the second half of 2022. If you invest today, Crew Energy trades at $5.80 per share (+102.8% year to date).

Price level target

Some industry experts say the production cut of OPEC+ is surprisingly modest. However, it still indicates that the oil producers are worried about falling oil prices and are determined to maintain a price level of US$100 per barrel.

CATEGORY

1. Energy Stocks
2. Investing

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1. TSX:CR (Crew Energy)
2. TSX:SGY (Surge Energy Inc.)
3. TSX:STEP (STEP Energy Services Ltd.)

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