3 UNDERVALUED TSX Energy Stocks to Buy Today

Description

After their recent correction, Canadian oil and gas stocks again look attractive from a valuation standpoint. Here are some undervalued TSX energy stocks that offer handsome upside potential.

Baytex Energy

Baytex Energy (TSX:BTE) recently released its updated five-year production guidance. It includes annual production growth of 2-4% and encouraging output growth from the Clearwater play. It is one of the most economical oil plays in North America, with much lower payout periods.

Baytex Energy aims to produce 84,000 barrels of oil equivalent this year. Almost 83% of its production is liquids weighted. So far in 2022, the company has generated a free cash flow of $367 million. It has aggressively repaid the debt with this incremental free cash, which has notably strengthened its balance sheet.

Considering decent production growth and a strong price environment, Baytex will likely see superior earnings growth for the next few years. An improving balance sheet, with little debt and a strong liquidity position, further lowers shareholder risk.

And, importantly, the stock is currently trading at a price-to-cash flow of 2.6. It is much lower than its peers and its historical average. The stock has returned nearly 150% in the previous 12 months. It will likely trade higher from current levels, given the earnings growth and expected higher oil prices.

Cenovus Energy

One major factor that could push **Cenovus Energy** (TSX:CVE)(NYSE:CVE) higher in the next few months is it’s expected faster deleveraging and a potential dividend hike. In the first half of 2022, the company saw its net debt decline to $7.5 billion. As it is expected to fall further in the third quarter (Q3) of 2022, it will likely allocate higher of its free cash to shareholder dividends.

Cenovus had a concerning leverage position in 2020. However, it has significantly improved in the last few quarters. At the end of Q2 2022, it had a net debt-to-EBITDA (earnings before interest, tax, depreciation, and amortization) ratio of 0.8.

Apart from dividends, the company might aggressively repurchase its shares, as the stock continues to trade at lower levels. Share buybacks push the stock higher in the short term and indicate the company's financial strength.

Notably, CVE stock has returned 125% in the last 12 months. Despite such a steep rally, it is currently trading at a price-to-cash flow ratio of 3.1. It will likely rally higher, as energy commodities soar on supply woes.

MEG Energy

MEG Energy (TSX:MEG) stock has rallied a sizeable 115% in the last 12 months. It is trading at a price-to-cash flow ratio of 2.6 and indicates handsome upside potential.

MEG aims to produce around 95,500 barrels of oil per day in 2022. It has significant exposure to the Christina Lake project, one of the most cost-effective assets in the country. It also hosts high-quality, low-decline oil and gas reserves.

MEG Energy has close to two billion barrels of oil in proven and probable reserves, giving it a reserve life index of 55 years — one of the highest among peers.

Like peers, MEG also saw stellar free cash flow growth that facilitated faster deleveraging. It has been aggressively buying back its own shares amid windfall cash flows. The stock should trade at a much higher valuation multiple, given its earnings-growth prospects and more share repurchases.

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:MEG (MEG Energy Corp.)

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