3 Energy Stocks Fell More Than 10% But Are Still Beating the Market

Description

The **S&P/TSX Composite Index** gave up 521.70 points on September 23, 2022, its lowest closing level in over two months. Also, the 2.75% decline on Friday was the Index's biggest decline since June 16 this year. The energy sector lost nearly 8% after oil prices dropped below US$80 per barrel.

All Canadian energy stocks retreated during the market rout to reduce the sector's year-to-date gain to 27.43%. But despite falling by more than 10%, **Baytex Energy** (TSX:BTE), **MEG Energy** (TSX:MEG), and **Peyto Exploration & Development** (TSX:PEY) still beats the market.

The healthy gains of the nearly every firm in the oil space in 2022 are due to elevated oil prices. However, the anticipated weakening of economic activity and crude demand because of aggressive rate hikes are causing the downward pressure on commodities. Is it time to ditch the three energy stocks and cash out before another sector pullback happens?

Soaring profits

Baytex Energy plunged 10.05%, yet at $5.82 per share, the year-to-date return was 48.85%. The $3.26 billion crude oil and natural gas producer operates in the Western Canadian Sedimentary Basin and Eagle Ford in the United States. In the second quarter (Q2) 2022, management reported a record quarterly free cash flow (FCF) of $245 million. Net income for the quarter jumped 218% year over year to $180.72 million.

Ed LaFehr, Baytex's outgoing president and chief executive officer (CEO), said, "We anticipate increasing direct shareholder returns to 50% of our free cash flow and accelerating our share-buyback program. We continue to view our shares as undervalued in relation to our current operations."

In the first half of 2022, MEG's net earnings increased 1,051% compared to the same period in 2021. Its president and CEO Derek Evans said, "The second quarter saw MEG initiate its share-buyback program as well as continue to make significant progress on debt reduction. Year to date, we have applied over $1 billion of free cash flow to debt repayment and share repurchases."

According to management, the capital-allocation strategy of the $4.59 billion oil sands developer is designed to provide increasing return of capital to shareholders, as progressively lower net debt targets are reached. MEG's share price declined 10.35% to $15.07 but remains up 28.8% year to date.

Peyto's earnings in Q2 2022 soared 641% to $94.54 million versus Q2 2021, while funds from operations grew 151% year over year to $205.9 million. The $1.73 billion natural gas-weighted exploration & production company builds value through high-quality gas properties.

Management said the outlook for natural gas prices for the balance of 2022 and beyond remains extremely bullish. Despite the 10.18% pullback last week, the energy stock is beating the broader market year to date at 11.29% versus -12.92%. Peyto also pays a fantastic 5.89% dividend.

Short-term bearish sentiment

The share price drops of Baytex, MEG, and Peyto last week could be temporary. Many industry experts are optimistic about the rebound of oil prices in the long term. Wall Street banks predict the rebound to come in Q4 2022 for as long as demand is steady and inventories are low. In the meantime, crude prices could plunge some more with the implementation of more sanctions against Russia.

CATEGORY

1. Energy Stocks
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2. TSX:MEG (MEG Energy Corp.)
3. TSX:PEY (Peyto Exploration & Development Corp)

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