3 Top TSX Energy Stocks That Seem Ready to Soar

Description

TSX energy stocks have had enough weakness since June. With their improving balance sheets and earnings growth, Canadian oil and gas names should trade at a much higher valuation. Here are three potential opportunities.

Cenovus Energy

Canadian oil and gas producers have seen massive deleveraging this year, thanks to their soaring free cash flows. Energy commodity prices jumped multi-fold in the first half of 2022 amid increased geopolitical tensions. Canadian energy giant **Cenovus Energy** (TSX:CVE)(NYSE:CVE) is expected to achieve its deleveraging target in the next few quarters. That will allow it to use more of its free cash for shareholder returns.

The company had announced that when its net debt falls below $9 billion, it will allocate 50% of its free cash flows to dividends and share buybacks. At the end of the second quarter (Q2) 2022, it had net debt of $7.5 billion. It might have made a further improvement on the deleveraging front in the third quarter. So, a higher portion of its free cash will likely be used for shareholder returns.

Despite the recent fall, CVE shares have returned 70% in the last 12 months. More balance sheet strength and potential dividend hikes should help the stock rally higher. Interestingly, its recent weakness could be an opportunity.

Birchcliff Energy

Natural gas has shown more strength recently than crude oil. That’s why gas producer names have been relatively strong of late. **Birchcliff Energy** (TSX:BIR) is a mid-cap natural gas producer that derives 80% of its earnings from gas. It has dropped nearly 20% since last month and looks attractive from a valuation perspective.

Birchcliff Energy is expected to become net debt free by next year. That’s a substantial improvement on the balance sheet front and will likely unlock huge shareholder value.

BIR stock is currently trading five times earnings and 3.5 times cash flows. That looks lower compared to its historical average and should fuel an epic rally. Gas stocks already look ripe for a decent recovery after their months-long correction.

Natural gas names like Birchcliff could outperform from their current levels, given their massive free cash flow potential, dividend-hike prospects, and strengthening balance sheet.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) is another appealing bet among TSX energy stocks. However, as oil and gas prices have come down significantly, CNQ stock has declined nearly 28% since June. Its solid dividends and healthy earnings-growth outlook will likely create notable shareholder value in the long term.

CNQ reported a net income of $6.6 billion in the first half of 2022. That was a massive increase from $2.93 billion in the same period last year. And that was not just CNQ. Many peer energy producers saw a stellar financial growth this year.

As a result, shareholder dividends also increased notably. CNQ increased its regular dividend by 50% for 2022. Apart from the regular, it also paid a special dividend of $1.5 per share, collectively amounting to $4.5 per share. That indicates a dividend yield of 7%!

CNQ stock could take support of $61 levels, as it had in the past, and bounce back towards its record highs. It looks attractive from a valuation standpoint as well. Given the expected surge in oil prices, CNQ seems like an appealing bet in the current markets.

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2. NYSE:CVE (Cenovus Energy Inc.)
3. TSX:BIR (Birchcliff Energy Ltd.)
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5. TSX:CVE (Cenovus Energy Inc.)

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