



## Buy Alert: This Energy Stock Is Unstoppable After Strong Results

### Description

Energy has been a bright spot on the Canadian [stock market](#) this year. While nearly every other sector lags, energy has surged to record highs. After an eight-year bear market, it's nice to see this sector of the economy finally gaining some investment.

One energy stock is having a particularly good year — **Tourmaline Oil** ([TSX:TOU](#)). Despite the name, Tourmaline's core business operations are focused on natural gas. This commodity has been relatively less volatile than crude oil, which is why Tourmaline has been consistently beating earnings expectations for the past year.

Here's why this energy stock should be on your radar for winter 2022.

### Earnings beat

In the second quarter of 2022, Tourmaline delivered net earnings of \$822.9 million. That equates to roughly \$2.40 per diluted share — 15 cents higher than analysts' estimates.

That wasn't the only green flag in the quarterly report. Free cash flow came in at \$1.1 billion — a record high. The company also managed to reduce its net debt position to \$430.0 million, which is less than half of its target of \$1 to \$1.2 billion.

Put simply, Tourmaline is having an excellent year. The balance sheet and cash flow were so strong that management decided to deliver a special dividend of \$2.00 per common share on August 12, 2022. Because of the ongoing energy crisis, I expect more special dividends for shareholders in the months ahead.

### Energy war

Energy is the most important bargaining chip in the Eastern European conflict. Russia is the world's second-largest producer of crude oil and was the largest exporter of natural gas to Europe. Now, these

supplies have diminished and some worry that the supply could be cut off entirely during winter.

North American energy producers have stepped in to plug the gap. The U.S. has ramped up exports of liquefied natural gas to the continent. Meanwhile, Tourmaline expects to deploy \$1.6 billion in new investments in 2023 to add new rigs and expand production to 545,000 barrels of oil equivalent per day (BOE/D).

This investment plan should deliver \$3.5 billion in free cash flow next year and steadily increase production until 2028. Put simply, Tourmaline is on the precipice of a growth spurt.

## Valuation

Tourmaline stock is up 78% over the past year but could still be considered "[undervalued](#)." It trades at just 10.7 times earnings per share. That implies an earnings yield of 9.3%. The total return could be substantially higher if natural gas prices remain stable and the company executes its growth plan successfully.

Since the company has already met its debt-reduction targets, I expect any excess cash flow to be delivered to shareholders in the form of special dividends in the years ahead.

Investors looking for a steady source of passive income should add this energy stock to their watch list.

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