



Buy Alert: This Energy Stock Is Unstoppable After Strong Results

Description

The [energy sector](#) is the top-performing sector in 2022. Due to the reopening of economies and the ongoing war between Russia and Ukraine, oil prices gained significant momentum in the past year. Higher commodity prices have allowed energy stocks such as **Devon Energy** ([NYSE:DVN](#)) to deliver outsized gains to investors in 2022.

While the S&P 500 index is down 25% from all-time highs, the energy sector index is up 48%, while Devon Energy stock has gained over 64% year to date.

Let's see if Devon Energy can continue to outpace the broader markets in the future.

Devon Energy reports strong Q2 results

In the second quarter (Q2) of 2022, Devon Energy reported earnings of US\$2.59 per share, an increase of 38% year over year. Its EBITDA (earnings before interest, tax, depreciation, and amortization) rose 33% to US\$2.83 billion, while free cash flow rose by 62% to US\$2.1 billion in the June quarter.

Devon Energy initially estimated to end 2022 with a free cash flow of US\$5 billion in 2022, given average crude prices of US\$85 a barrel. The company has increased free cash flow estimates to US\$6.5 billion if crude oil prices averaged US\$95 per barrel in the second half of 2022.

Last year, Devon Energy disclosed its first fixed-plus-variable dividend framework. In addition to a growing base dividend that increases each quarter, it will also pay shareholders a variable dividend, which will be up to 50% of free cash flow.

It has increased its dividend per share to US\$1.55 in Q2, up from US\$0.49 per share in the year-ago period, an increase of more than 200% year over year. Its annual dividend per share of US\$6.20 indicates a tasty yield of 8.81%. So, an investment of \$1,000 in Devon Energy stock will allow investors to generate \$88.1 in annual dividend payments.

In addition to paying investors a dividend and strengthening its balance sheet, Devon Energy has used its robust cash flows to grow inorganically via acquisitions. It paid US\$865 million to expand its presence in the Williston Basin and pumped in close to US\$2 billion to acquire Validus Energy. Its widening base of cash-generating assets should allow Devon Energy to improve its cash flows and support further dividend increases.

Is Devon Energy stock a buy right now?

Even after accounting for the above acquisitions, Devon Energy expects to end the year with a leverage ratio of 0.4 times, providing it with the required financial flexibility to pursue other accretive acquisitions.

Devon Energy stock is valued at 7.3 times forward earnings, which is quite cheap, given its tasty dividend yield and enticing growth profile. It has also allocated US\$2 billion towards a share-repurchase program, lowering its outstanding share count by 6%.

Additionally, Devon Energy signed a deal with Delfin Midstream for LNG exports. Devon is entering a liquefaction capacity contract with Delfin and will also invest in the latter while working to develop LNG vessels that will produce 13 million tonnes of LNG each year.

Analysts remain bullish on Devon Energy and expect the stock to gain 15% in the next year. After accounting for its dividend yield, total returns will be closer to 24%.

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Author

araghunath

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