Down 25% From the Top, These Canadian Energy Stocks Look Ready to Zoom

Description

Energy has been among the very few sectors that has made money for investors this year. However, since June, energy stocks are also on a downtrend, as crude oil has started losing steam. So far in 2022, TSX energy stocks have returned 50%, while the **TSX Composite Index** has dropped 15%. Notably, the recent correction in energy names could be an opportunity for investors to get on board. Here are two Canadian oil and gas stocks that look ready to soar.

Cenovus Energy

Canada's third-biggest energy producer by market cap, **Cenovus Energy** (TSX:CVE) has lost 25% since June. But considering its balance sheet strength, free cash flow growth, and rallying oil prices, CVE stock will likely race back to its record levels.

In the second half of 2022, the company is expected to allocate a larger portion of its free cash toward shareholder returns. To be precise, CVE had $7.5 billion in net debt at the end of the second quarter of 2022. So, investors can expect 50% of its free cash flows to be allocated for dividends or share buybacks.

Despite the recent fall, CVE stock is sitting on a 55% gain for the year. The fall could have been limited due to the management's aggressive buyback. Cenovus bought back $1 billion worth of shares in the second quarter.

Interestingly, the supply woes in the global energy markets suggest much higher oil prices. However, market participants are mainly focusing on inflation and rate-hike scenarios that will likely lead to a recession. What's more worrisome is the demand-supply imbalance that could send oil prices back to triple-digit levels, benefiting energy producers.

So, upstream companies like Cenovus look well placed to witness massive financial growth in the next few quarters. Its fast debt repayments and potential dividend hikes could create considerable shareholder value.

MEG Energy

MEG Energy (TSX:MEG) is one of the top-gainer, mid-cap names. It has declined 28% since June but has gained 50% in 2022.

Canadian energy companies have shown terrific capital discipline since the pandemic, which has made boatloads of money for shareholders. Instead of putting money into growing production, oil and gas companies have repaid debt and attained sound balance sheets. They have also used their excess cash for shareholder dividends and share repurchases.

MEG has been no different. In the first half of 2022, MEG repurchased 7.2 million shares, representing 2.4% of its total float. Notably, we may get to see more aggressive buybacks as the stock continues to trade at lower levels. The company buying its own shares indicates management's belief about its future and return-generating capacity.

MEG has a solid asset base and a long reserve life. Higher production, particularly when oil is trading close to $100 levels, improves earnings growth as well as margins for energy producers.

After its correction, MEG stock is currently trading seven times its earnings. That looks undervalued and suggests a potential climb up. Given the improving balance sheet and earnings visibility, MEG is one of the top bets among TSX energy stocks.

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