Top TSX Natural Gas Stocks to Buy in October 2022

Description

Natural gas names have notably outperformed their oil counterparts this year. While oil prices have also begun to climb up again recently, gas will likely continue to trade at elevated levels in the short to medium term. Here are two Canadian natural gas stocks that offer handsome growth prospects.

Tourmaline Oil

Tourmaline Oil (TSX:TOU) has remarkably rewarded shareholders in the last few years. It has returned 90% in the last 12 months and 450% in the last two years. The strong price environment has played well for Tourmaline. However, apart from higher prices, its engineering design improvements last year and scale in Canada's premium gas plays boded well for its financial growth.

Tourmaline aims to produce 507,000 barrels of oil equivalent this year and has a drilling inventory of 75 years. It derives almost 80% of its earnings from natural gas.

In the last 12 months, Tourmaline Oil reported $2.2 billion in free cash flow, an increase of 156% compared to the earlier 12 months. The company had excess cash, which largely went toward debt repayments and higher dividends. As a result, Tourmaline's total debt has declined, and the balance sheet has notably strengthened.

In the last 12 months, TOU paid a total dividend of $6.5 per share, indicating a dividend yield of 8%. Note that Tourmaline Oil has been among the very few that have paid generous special dividends since last year. Many TSX energy stocks have focused on share repurchases. However, Tourmaline chose to directly share its profits with shareholders. Plus, such a massive dividend outgo indicates that the company has reasonable earnings visibility and balance sheet strength.

It's safe to assume that Tourmaline will likely continue to see stellar earnings growth in the third quarter (Q3) 2022 as well, given elevated gas prices. So, investors can expect further debt repayments, more dividend hikes, and more value creation.

Birchcliff Energy

Birchcliff Energy (TSX:BIR) is a relatively smaller gas producer and derives 81% of its earnings from natural gas operations. The company recently announced that it's close to achieving a net debt-free status.

As a result, it has declared a special dividend of $0.20 per share, which is 10 times its regular quarterly dividend. Including the special dividend, BIR stock now yields 2.3%. Note that BIR stock has returned 80% in the last 12 months and 560% in the last two years.

Birchcliff had a net debt of $788 million at the end of 2020. It has now fallen to $328 million as of Q2 2022. As the company approaches debt-free status, the company could allocate a larger chunk of its cash to shareholder returns.

So, more dividend hikes could follow. Due to its strengthening balance sheet and earnings predictability, we might also see a rating upgrade on BIR in the short term.

Conclusion

The European energy crisis puts natural gas in the limelight. Investor sentiment could keep gas prices elevated in the short to medium term, placing TOU and BIR in a sweet spot. Their solid earnings growth and balance sheet strength will likely create notable shareholder value.

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Author
vinitkularni20