



Tamarack Valley Energy (TSX:TVE) Stock Soared 40% in October: Time to Buy?

Description

The Canadian energy sector seems disconnected from the broader markets. While markets continue to trade range-bound, [TSX energy stocks](#) have been riding only higher. So far this year, oil and gas names have soared 65%, while the **TSX Composite Index** has dropped nearly 10%. A mid-cap energy producer **Tamarack Valley Energy (TSX:TVE)** is one such name that has notably beaten its peers. Last month, TVE stock broke above its typical range and returned 40%.

Why did TVE stock zoom last month?

Tamarack is a \$3 billion energy producer, and 76% of its production is liquids-weighted. It has a significant presence in the Clearwater and Charlie Lake areas, one of the lucrative oil plays in North America. TVE stock has returned 45% since last year and 850% since the pandemic.

Energy names started climbing higher in mid-October when crude oil prices turned higher on supply woes. As the recession rhetoric has waned, market participants have been focusing on fundamentals like demand-supply imbalance, pushing oil prices higher. However, apart from that, Tamarack had several other positive developments that drove its outperformance last month.

Tamarack closed its Deltastream Energy acquisition last month. The Deltastream acquisition further strengthened its position in the Clearwater area. Notably, Deltastream offers scale, long-life assets, and favourable economics to Tamarack.

Tamarack Valley Energy Q3 2022 earnings

Moreover, towards the end of the month, Tamarack reported better-than-expected Q3 2022 numbers. The intermediate oil and gas producer reported 43,476 barrels of equivalent production during the quarter, a 5% increase against last year. Free cash flows were \$131 million for the quarter ended September 30, 2022. In the same quarter last year, Tamarack posted free cash flows of \$30.6 million. The company delivered solid financial growth, led by higher production in the strong price environment.

Besides earnings growth, Tamarack has shown significant improvement on the balance sheet front. Its net debt nearly halved during the third quarter to \$287 million. Debt reduction will likely remain the focus for management for the next few quarters amidst higher free cash flow growth prospects.

Moreover, it will likely allocate a higher portion of cash towards shareholder returns as the debt balance now seems more comfortable. Tamarack Valley Energy has already increased its dividends twice this year and now yields 2.8%. Even if that's lower than peers, it still has a strong dividend hike potential, which we might see materializing next year.

The Foolish takeaway

Furthermore, oil prices look well-positioned to breach triple-digit levels soon. So, investors can expect higher earnings growth to continue for some more quarters.

On the [valuation](#) front, TVE stock is currently trading five times its earnings and three times its cash flows. This looks discounted compared to peers. The stock seems to have just gotten started and could rally higher. Its solid operational execution, and balance sheet improvement, combined with a strong price scenario could fuel the stock higher.

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