Worried About a Potential Oil Price Crash? 3 TSX Energy Stocks That Could Thrive Anyway

Description

Some industry experts worry that more rate hikes by central banks could weaken oil demand further and lead to a price crash. Meanwhile, the hot streak of energy stocks continues, as evidenced by the sector's 65.4% year-to-date gain.

Oil and gas companies have strong balance sheets after amassing meaningful cash surpluses in the favourable pricing environment. **Birchcliff Energy** (TSX:BIR), **Nuvista Energy** (TSX:NVA), and **Step Energy Services** (TSX:STEP) are among the winning investments in 2022.

Assuming oil prices drop, all three can thrive in the inflationary environment and survive a potential economic slowdown. These oil players have become better capital managers with their disciplined approach to spending.

Cash surplus position

Birchcliff Energy continues to outperform the energy sector and broader market. At $10.76 per share, the year-to-date gain is 70.7%. The $2.9 billion intermediate oil and natural gas company had an impressive Q2 2022, achieving record quarterly adjusted funds flow ($285.5 million) and free funds flow ($201.3 million).

In the three months ended June 30, 2022, net income jumped 387.7% to $213.85 million versus Q2 2021. Birchcliff is also on track to achieve its zero-debt target after retiring around $840 million in total debt. According to management, it's on track to reach a cash surplus position by the end of Q1 2023.

Top growth stock

Nuvista Energy (rank 12), along with Birchcliff (rank 13), made it to the 2022 TSX30 List, an annual program showcasing TSX's top 30 growth stocks. At $13.89 per share, current NuVista investors enjoy a 99.6% year-to-date gain, and its total return in 3 years is 601.5%.

The $3.2 billion condensate and natural gas company operates in the Western Canadian Sedimentary Basin and focuses on the condensate-rich Montney formation in the Alberta Deep Basin.

In the first half of 2022, net earnings soared 5,481.5% to $248.2 million versus the first half of 2021. During the same period, cash provided by operating activities and adjusted funds flow increased 273% and 339% year over year to $390.1 million and $389.7 million, respectively.

Incredible gains

STEP isn't an oil producer but caters to exploration and production (E&P) companies operating in the Western Canadian Sedimentary Basin and U.S. (Texas, Colorado, and North Dakota). This $428.3 million company provides coiled tubing, fluid and nitrogen pumping, and hydraulic fracturing solutions.

The energy stock trades at $6 per share, although it has rewarded investors with an incredible 272.7% year-to-date gain. Had you invested $20,000 in STEP at year-end 2021, your money would be worth $74,534.17 today. Based on market analysts' forecasts, the price could still appreciate by 78% to $10.68 in one year.

In the first three quarters of 2022, revenue reached $737.6 million, or 95.4% higher than in the same period last year. Step's net income was $78 million compared to a net loss of $21.9 million.

Moreover, free cash flow (FCF) climbed 559.3% year over year to $89.4 million. Management maintains a constructive outlook for 2023 and expects the market to return to balance.

More returns

Even with excess cash due to rising commodity prices, oil producers will not deploy cash immediately to new energy projects like before. Chris Carlsen, Birchcliff's Chief Operating Officer, said shareholders today want returns, not growth.

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