3 Super-Cheap TSX Energy Stocks to Buy Right Now

Description

This year has been the third in line for energy stocks to outperform broader markets. As oil prices continue to remain elevated, and, given the geopolitical tensions, TSX energy stocks could continue their growth streak next year as well. So, here are some of the top undervalued TSX energy stocks to play the next leg of the crude oil rally.

Vermilion Energy

Vermilion Energy (TSX:VET) stock faced investors' ire last week when it paused its buyback plan due to Europe's windfall taxes. However, it is one of the most undervalued energy names among peers. VET stock has returned 80% this year and 850% since the pandemic.

VET stock is currently trading at a free cash flow yield of 35% compared to peers' average of 16%. The large difference could be due to its steep free cash flow growth, driven by assets in Europe.

Vermilion is a $4.5 billion energy producer with assets in Canada, Europe, and Australia. Gas prices in Europe skyrocketed this year amid the notorious energy crisis. Vermilion saw stellar earnings growth due to its large exposure to European assets.

Vermilion estimates the windfall taxes could cost around $700 million collectively in the next two years. However, its free cash flows and improving balance sheet make it look strong for 2023.

Baytex Energy

Baytex Energy (TSX:BTE) is another name that looks attractively valued even after doubling in 2022. It is currently trading at a free cash flow yield of 25%, indicating a big discount compared to peers. On the earnings front, the stock is trading four times its earnings, suggesting a decent upside going forward.

Baytex has been on fire and has seen remarkable free cash flow growth this year. The excess cash made its way to debt repayments and shareholder returns. Notably, Baytex plans to increase its output next year from one of the most lucrative Clearwater oil areas, which will likely fetch superior profit margins.

Baytex will mainly rely on share buybacks for its excess shareholder return. According to the company guidance, at West Texas Intermediate oil of US$90 a barrel, Baytex will earn total free cash flows of $4 billion through 2026, of which $2.4 billion will be returned to shareholders.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ) stock has soared a notable 55% this year, which is in line with its peers. Note that CNQ stock does not look significantly cheap compared to peers. It is trading eight times its earnings, largely like its peers. It is trading at a free cash flow yield of 16%; again, that's in line with the industry average.

CNQ will likely continue to create decent shareholder value next year as well due to its strong earnings visibility and reliable dividends. It currently yields 4.3% and has increased its dividend for the last 23 consecutive years. In 2022 so far, CNQ has returned approximately $10 billion to shareholders via dividends and share buybacks.

Thanks to surging cash flows, Canadian Natural aggressively repaid debt, which notably strengthened its balance sheet. For next year as well, the company estimates continuing deleveraging and strong shareholder returns.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:VET (Vermilion Energy Inc.)

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