Missed Out on Canadian Energy Stocks? My Best TSX Stock to Buy and Hold

Description

Remember when crude oil turned negative in April 2020? Global energy markets were on a different track back then. However, after two-and-a-half years, energy markets have achieved a much better shape today. Oil and gas producers are quite well disciplined with their capital amid this price strength. In fact, this is the primary reason why [TSX energy stocks] have returned 1,000-2,000% since the pandemic.

TSX energy stocks and oil price rally in 2022

But if you missed the bus, you are not alone. Energy names always looked risky because of their indebtedness and correlation with oil prices. Even though risks regarding their debt profiles have come down significantly, TSX energy names are still risky plays.

So, even if you stayed away from the recent energy rally, don't feel too bad. Because the rally seems far from over. Surging oil demand, as China comes back online, and chronic supply woes will likely keep energy prices higher. Plus, the lingering war in Europe is not going to help.

As a result, many Canadian oil and gas producers have guided for decent production growth next year. This will likely drive impressive financial growth next year as well, repeating the growth streaks of the last two years.

A smart TSX energy stock for 2023

Canadian mid-cap producer **Baytex Energy** (TSX:BTE) looks attractive in the current markets. It has already returned 90% this year and 1,340% since the pandemic.

Like peers, it has seen remarkable free cash flow growth and balance sheet strength in the last few years. However, what sets it apart is its assets. It has high-quality assets in Eagle Ford, Viking, and Peace River areas, which deliver extremely favourable oil economics, especially as oil prices are close to triple-digit levels. Next year, it is expected to increase its output from Clearwater, one of the most lucrative oil plays in North America, which could boost its financials.

In the latest reported quarter, Baytex Energy reported free cash flows of $143 million, marking a handsome 69% growth year over year. Thanks to higher oil prices, energy companies have seen massive financial growth and margin expansion in the last few quarters.

Baytex used this excess cash to repay debt and closed the third quarter with net debt of $1 billion. Note that in late 2020, it had net debt of close to $2 billion. The company will most likely see improved profitability due to lower debt-servicing costs amid declining debt.

BTE stock: Valuation

Apart from top-quality assets, Baytex Energy stock seems quite undervalued compared to peers. As a result, the stock will likely see superior upward movement, even though it is among the top gainers this year. So, BTE stock is currently trading at a 2023 free cash flow yield of 25%, whereas the peer average comes to around 18%. On the earnings front, the stock is trading at four times, which is much lower than peers.

So, considering the discounted valuation and strong earnings growth prospects, BTE stock will likely continue to play well. It looks well positioned going into 2023 amid tight energy markets and enduring oil price strength.

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