The Oil Boom Isn't Over: These 2 Energy Stocks Could Rebound Sharply in 2023

Description

The price of crude oil and natural gas has been subdued in recent months. Investors are worried about a recession and lack of demand in emerging economies like China. However, the market is still undersupplied, and energy prices could rebound sharply in 2023.

That's why investors should consider buying oil stocks on this recent dip.

Oil stock #1

MEG Energy (TSX:MEG) has benefited from operational efficiency despite the turmoil in the energy sector. While the broader stock market is down by about 5%, MEG stock is up 58% year to date. The stock could rise after a recent pullback if oil prices rebound next year.

MEG Energy's edge stems from the Christina Lake project, a high-quality and low-decline reserve project. From the project, the company has posted positive results in 2022, benefiting from high oil prices. In the third quarter, the company had a record bitumen production of 101,983 barrels per day.

Adjusted funds flow more than doubled to $496 million, as revenues totaled $1.57 billion, up from $1.1 billion as of the same quarter last year. Free cash flow in the quarter nearly tripled to $418 million from $159 million in the same quarter last year.

Free cash flow in the first nine months of the year totaled $1.2 billion, which has allowed the company to reduce its debt levels significantly. Part of the funds has also been returned to shareholders through stock repurchases. Net debt currently stands at $1.2 billion, with the company increasing free cash flow allocated to share buybacks to 50%.

On valuations, MEG energy trades at a discount with a price-to-earnings multiple of six. The company has already made investors a fortune. Since the pandemic, it has returned over 1,000%.

MEG's fundamental strength and fair valuation make it a solid pick for anyone looking to generate considerable shareholder value and gain exposure in the energy sector.

Oil stock #2

Baytex Energy (TSX:BTE) is another robust Canadian energy play. The company has benefited from high oil and gas prices. The stock has returned 70% year to date, which is in line with the overall sector. In contrast, the broader markets are down by about 5% amid inflationary and recession concerns.

While the stock has pulled back significantly in recent months, it continues to outperform the overall sector amid the high oil and gas prices. Impressive third-quarter results signal that the company continues to fire on all angles and is well positioned to generate significant free cash flows to return value to shareholders.

In the third quarter (Q3), the company registered a 43% increase in adjusted funds flow to $284 million, as free cash flow increased 11% to $112 million. In addition, Baytex reduced its net debt by 21% to $1.1 billion and repurchased 21.6 million shares. As a result, the company is projected to generate $125 million in positive free cash flow in Q4 and spend about $31 million in share repurchases.

Baytex is in for an impressive year on oil prices remaining above the $80-a-barrel level. The company should continue to generate significant cash flows to return value to shareholders through stock repurchases and trim its debt levels.

While the stock is up by about 70% year to date, it is still trading at a discount with a price-to-earnings multiple of *three!* Given that the company is expected to see higher free cash flow next year, it remains a solid bet for gaining exposure in the energy sector.

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