



Here's My Top Stock to Buy Now, and it's Not Even a Question

Description

While equity investors in 2022 have endured a tumultuous 12 months, there are a few stocks that have managed to avoid the carnage. For instance, due to geopolitical tensions and the reopening of economies, oil prices touched multi-year highs earlier this year, allowing TSX [energy stocks](#) to stage a remarkable comeback after trading at depressed multiples in 2020.

While oil prices have somewhat stabilized, my top stock to buy right now is **Tourmaline Oil** ([TSX:TOU](#)), an energy company valued at a [market cap](#) of \$27 billion.

Among the largest companies trading on the TSX, Tourmaline Oil has returned close to 400% to shareholders in the last 12 years. Comparatively, indices such as the TSX and the S&P 500 are up 313% and 134%, respectively in this period. But past performance does not guarantee future returns. Let's see why I remain bullish on TOU stock at its current valuation.

Is TOU stock a good buy?

Tourmaline is a crude oil and natural gas exploration and production company. It aims to drive earnings through a combination of oil exploration and an acquisition program in the Western Canadian sedimentary basin.

Over the years, Tourmaline has deployed capital to assemble land positions with significant multi-year drilling inventory and operational control of natural gas processing and transportation infrastructure.

Tourmaline is the largest natural gas producer in Canada and the fourth-largest Canadian gas processing midstream operator. It is also the operator with the lowest cost in the Canadian sedimentary basin with an investment-grade balance sheet.

Its low-cost infrastructure allows the company to benefit in an inflationary environment, as it is on track to expand earnings from \$6.4 per share in 2021 to \$12.13 per share in 2023.

As of writing, TOU stock is priced at less than seven times forward earnings, which is quite cheap

given its estimated growth rates. Tourmaline's revenue rose by 44% year over year to \$5.56 billion in the first nine months of 2022, while cash flow soared 78% to \$2.5 billion in this period.

Does Tourmaline pay a dividend?

Tourmaline Oil pays investors annual dividends of \$1 per share, indicating a forward yield of 1.23%. However, the TSX energy giant also paid investors a special dividend when energy prices gained momentum. In 2022, its total dividend payout stood at \$7.65 per share, indicating a yield of 9.4%.

So, if you'd purchased 100 shares of TOU at the start of the year, you would have generated returns of 99%. After adjusting for dividends, total returns are closer to 123%. Further, in the last four years, its dividend payouts have risen at an annual rate of 29.5%.

In 2022, Tourmaline used its excess cash to strengthen its balance sheet and lower outstanding debt. It expects free cash flow in 2023 to range around \$3.7 billion, indicating a free cash flow yield of just 7.4%. Investors can expect another round of dividend increases in 2023, given the company's stellar financials.

Tourmaline has grown cash flow per share by 21% annually ever since it went public in November 2010, showcasing the resiliency of its business model.

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