I’m Buzzing on These 3 Energy Stocks for 2023

Description

Investors will most likely stay invested in **Baytex Energy** (TSX:BTE), **MEG Energy** (TSX:MEG), and **Tamarack Valley** (TSX:TVE) in 2023. The growing buzz is that all three energy companies will have stronger balance sheets next year. Eric Nutall, a partner and senior portfolio manager at Ninepoint Partners, expects them to hit their ultimate debt targets next year and meaningfully increase free cash flow (FCF).

Superb performance

Baytex Energy continues to display superb performance heading into December. As of this writing, the energy stock is up 72.9% year to date. Noteworthy, at $6.76 per share, the overall return in 3.01 years is 369.4%. Because of its strong performance, Baytex is one of the top TSX 30 growth stocks in 2022 (rank 26).

Last year, the $3.7 billion crude oil and natural gas producer introduced a five-year plan (2021–2025) that aims for financial and operational sustainability plus free cash flow generating capability. Over three quarters in 2022, FCF and cash flow from operating activities increased 68.3% and 84.3% year over year to $478.2 million and $869.4 million, respectively.

Baytex President and CEO Ed Lafehr said, “We continue to deliver on our commitments with a much-improved balance sheet, substantial FCF generation through nine months and a shareholder return framework that is driving real value for our shareholders.” Based on market analysts’ forecast, the share price could climb as high as 77.5% to $12 in one year.

Top-ranked growth stock

MEG Energy is a TSX30 winner in 2022, like Baytex, but ranked higher (15th). At $19.52 per share, current investors enjoy a +66.8% year-to-date gain. Market analysts covering this energy stock have price targets between $24 (average) and $34 (high) in 12 months.

This $5.8 billion energy company operates in the southern Athabasca oil region and focuses on sustainable in situ thermal oil production. MEG also utilizes steam-assisted gravity drainage extraction methods to improve oil recoveries and lower carbon emissions.

In Q3 2022, FCF reached $418 million, representing a 162.9% increase from Q3 2021. Management repurchased 5.6 million shares ($92 million) after reducing net debt by US$1.2 billion during the quarter. Net earnings rose 188.9% to $156 million versus the same quarter last year.

MEG is a member of Pathways Alliance, which will evaluate and construct the proposed carbon capture and storage facilities in the oil sands region of northern Alberta.

Capital gain plus dividends

Market analysts recommend a buy rating for Tamarack Valley. This energy stock trades at $5.08 per share but could climb to $7.37 (+45.1%) in one year. The overall return should be higher if you include the decent 2.94% dividend. Tamarack's near-term plan is to continue paying down debt and return 50% of FCF to investors by mid-2023.

According to management, the $2.8 billion oil and gas exploration and production company will work on balancing long-term sustainable free funds flow growth with returning capital to shareholders. In the first three quarters of 2022, net income grew by only 18% year over year to $294.8 million. However, cash flow from operating activities soared 222% to $577.5 million versus the same period in 2021.

Outsized returns

Baytex (+778%), MEG (+369%), and Tamarack Valley (+403%) rewarded investors with outsized returns in the last two years. It won't be surprising to see these energy stocks repeat the feat in 2023.

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2. TSX:MEG (MEG Energy Corp.)
3. TSX:TVE (Tamarack Valley Energy Ltd)

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