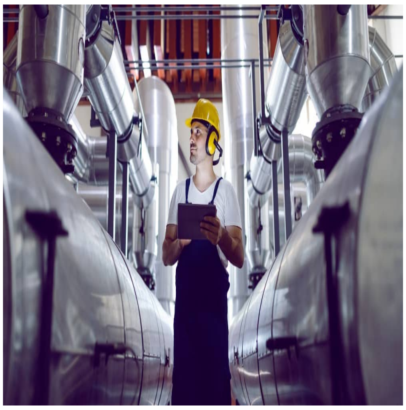

2 TSX Energy Stocks Still Offering Immense Value

Description

Investors are asking whether oil and gas stocks will rally next year, too, after their steep climb since the pandemic. The doubt is quite evident as the broader markets look hazy ahead of 2023. In 2022 so far, the **TSX Composite Index** has lost 8%, while TSX energy stocks have returned 50%. Interestingly, the latter still looks well placed for the next year, given their earnings growth and appealing valuation. Here are two of those energy names that stand out.

Baytex Energy

After a brief hiatus, energy names again marched higher last week as oil touched US$80 levels. Canadian mid-cap energy stock **Baytex Energy** (TSX:BTE) is one of the top-gainers among peers. It has gained 70% this year and nearly 1,200% since the pandemic.

Interestingly, despite a steep rally, BTE stock is trading three times its earnings and looks discounted. It is trading at a free cash flow yield of 15%, in line with its peers. If oil and gas prices trade higher from here, BTE could see superior movement driven by its appealing valuation.

The company aims to generate over $3 billion in free cash flows through 2026. The oil and gas producer intends to deliver 50% of this cash to shareholders, mainly via share buybacks. Such a long-term plan indicates management's confidence in the company's earnings and conveys its balance sheet strength. Also, its focus on share buybacks supports management's perception that the shares are undervalued.

Baytex has a diversified asset base with a drilling inventory of more than 10 years. Its solid footprint in the Clearwater oil play will likely boost its earnings and margins next year.

Energy market fundamentals like supply woes should dominate oil prices more so than the recession worries that have brought them down since mid-2022. So, energy equities should trend higher on expected free cash flow growth and higher shareholder payouts.

Cenovus Energy

Canada's third-largest energy producer **Cenovus Energy** (TSX:CVE) is another interesting bet for 2023. The stock has returned 70% this year and 1,000% since the pandemic.

Massive deleveraging has notably strengthened Cenovus Energy's balance sheet this year. By the end of 2022, it is expected to reach $4 billion in net debt, a substantial improvement from $9.5 billion last year. Driven by declining debt, the company will likely save on interest expenses next year, ultimately improving profitability.

Like Baytex, Cenovus is also bidding big on share buybacks. The integrated oil and gas player has bought back $2.1 billion worth of shares in the nine months that ended on September 30, 2022. As the company achieves its leverage target for the year, it is expected to allocate higher cash flows to shareholder returns.

Cenovus's long-life reserves and low-cost structure should stand tall in the strong price environment next year. Its superior earnings growth prospects and sturdy balance sheet will likely create considerable shareholder value.

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1. Energy Stocks
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2. TSX:CVE (Cenovus Energy Inc.)

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