



Tourmaline Oil Stock: Can This Top 2022 Gainer Keep the Momentum Going?

Description

With high inflation, rising interest rates, and geopolitical tensions weighing on the global equity markets last year, the S&P/TSX Composite Index fell by 8.7%. Despite the weakness in the broader equity markets, **Tourmaline Oil** ([TSX:TOU](#)) delivered impressive returns of 88% last year. Rising oil and [natural gas](#) prices and solid quarter performances have increased the company's stock price. Can the upward momentum continue in 2023 as well?

First, let's look at its performance in the first three quarters of 2022 and later discuss its growth prospects.

Tourmaline Oil's performance in 2022

In the first three quarters of 2022, Tourmaline Oil generated revenue of \$5.57 billion, representing a year-over-year growth of 77%. Increased production and higher price realization drove its revenue.

The company's natural gas production increased by 16%, while the production of crude oil, condensate, and NGL (natural gas liquids) increased by 19%. The average realized natural gas price stood at \$5.52/thousand cubic feet, representing a 50% increase from the previous year. Meanwhile, the average realized crude oil, condensate, and NGL price increased by 54% to \$68.35/barrel. Also, during the third quarter, Tourmaline Oil completed the acquisition of Rising Star Resources for around \$190 million.

The top-line growth boosted the company's bottom line during the first nine months of 2022. Its net earnings per share (EPS) stood at \$13.21, representing a 298% year-over-year rise. The expansion of operating margins and share repurchases over the last four quarters drove its EPS. It also generated a solid cash flow of \$3.48 billion in the first three quarters of 2022.

Now, let's look at its growth prospects.

Tourmaline Oil's growth prospects

Gas prices across Europe and the United States have cooled down substantially. In Europe, the prices have declined to pre-war levels thanks to the unusually warm weather and high storage levels. The decline in natural gas prices has dragged Tourmaline Oil's stock price down, with the company losing around a quarter of its stock value compared to November highs.

However, the International Energy Agency (IEA) warned last month that the European Union could face a possible shortage of 27 billion cubic metres of natural gas in 2023. So, the supply-demand mismatch could boost gas prices, benefiting Tourmaline Oil. Meanwhile, the company's management expects its 2023 production to increase to an average of 545,000 barrels of oil equivalent per day. Further, the company is developing the North Montney Conroy BC facility, which could become operational between 2025 and 2028. Supported by these facilities, the company's management expects its production to increase to 700,000 barrels of oil equivalent per day by 2028.

Further, amid the expectation of increased production and higher price realization, the company's management expects to generate a free cash flow of \$3.7 billion this year. So, the company's outlook looks healthy.

Dividend yield and valuation

Tourmaline Oil has rewarded its shareholders with special dividends amid its solid free cash flows. Overall, the company has paid \$7.9/share as a dividend this year. Also, the company trades at an attractive valuation, despite rising around 88% last year. Its next 12-month [price-to-earnings ratio](#) stands at 5.9. So, considering its healthy growth prospects and cheaper valuation, I am bullish on Tourmaline Oil.

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