



## Why Tourmaline Oil Corp. Stock Rose 51.3% Last Year

### Description

After being written off during March 2020, when oil prices went negative during the onset of the COVID-19 pandemic, the [Canadian oil and gas industry](#) has staged a terrific comeback to literally carry the **S&P/TSX 60** in 2022.

While the U.S. **S&P 500** is down nearly 19%, the S&P/TSX 60 lost just 9% thanks to the outperformance of these stocks. Chief among them was **Tourmaline Oil** ([TSX:TOU](#)), which ended 2022 with an astonishing 51.3% return.

High volatility and the prospects for large gains (or losses) are not unusual in the oil and gas industry. Still, TOU's performance in 2022 is worthy of scrutiny. What exactly happened?

### Why Tourmaline rose

2022's market conditions were notable not only due to rising interest rates but also rampant inflation. Defined as a percentage increase in the price of a common basket of goods and services as measured by the Consumer Price Index (CPI), Canadian inflation hit a year-over-year high of 8.1% in June 2022.

One of the most sensitive asset classes when it comes to inflation is commodities, which includes things like natural gas and crude oil. The price of these commodities tends to surge when inflation does. Indeed, natural gas prices hit new highs this year, aided by the war in Ukraine.

As a result, [natural gas stocks](#) like TOU experienced a sharp increase in their free cash flow, as the value of their production grew. The company was also able to significantly reduce their net debt and hit guidance for their 2022 third-quarter (Q3) production guidance.

Investors also flocked to TOU for its special dividend of \$2.25 per share, which was paid on November 19 to shareholders on record as of November 9. In addition, TOU also increased its quarterly base dividend by 11% to \$0.25% per share, greatly enhancing the stock's forward yield.

## Alternatives to Tourmaline

Despite the positive recent catalysts, I'm not inclined to buy shares of TOU. The company has significantly improved its fundamentals and returned value to shareholders, but I'd be wary of buying in after such a long and sustained run-up.

If you're bullish on the oil and gas industry, a more [diversified](#) approach to buy TOU could be an [exchange-traded fund, or ETF](#). A great pick here is **BMO Equal Weight Oil & Gas Index ETF (TSX:ZEO)**. The ETF currently pays an annualized distribution yield of 4.10% and costs an expense ratio of 0.61%.

This ETF holds 11 different TSX listed oil and gas stocks in equal weightings. This ensures that no single stock can overly influence its performance. And yes, TOU is held in ZEO at an 8.86% weighting as of December 30, 2022, so you're still getting some decent exposure.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:TOU (Tourmaline Oil Corp.)
2. TSX:ZEO (BMO Equal Weight Oil & Gas Index ETF)

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