Why Tourmaline Oil Stock Returned 80% Last Year

Description

The oil and gas sector massively outperformed broader markets last year. It returned 55%, while the **TSX Composite Index** fell 6% amid one of the most volatile years. Interestingly, Canada's largest natural gas producer, **Tourmaline Oil** (TSX:TOU), returned 80% last year, notably beating its peers.

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TOU stock has returned 750% since the pandemic.

Demand-supply issues dominated global energy markets after the war broke out in Europe in 2022. As a result, natural gas prices doubled and remarkably benefited producers. Like peer TSX energy names, Tourmaline saw record earnings in 2022.

Thanks to its deleveraging efforts, Tourmaline's balance sheet has significantly improved since the pandemic. Debt was around 15%–20% of its total capital in 2020, which has now fallen below 3%. This is because it used its excess cash to repay debt and achieve a stronger balance sheet position.

Moreover, TOU paid a total dividend of $7.90 per share last year, almost five times higher than in 2021. This implies an annualized yield of 12.6%, including special dividends. Noteworthy, Tourmaline looks well-placed to pay attractive dividends in 2023 as well.

What's so special about Tourmaline Oil?

Tourmaline has high-quality reserves in the Western Canadian Sedimentary basin with a reserve life of over 75 years. In 2023, it aims to produce 545,000 barrels of oil equivalent per day, marginally higher than in 2022. Canada's largest natural gas producer's scale and pipeline infrastructure bode well for its business and earnings growth.

It once seemed that colder weather in Europe would make this energy crisis much more severe. However, gas prices have tumbled in the last few weeks, mainly due to warmer weather. So, this could just be a temporary respite. As Europe tries to shift away from Russia for its gas needs, the prices will likely soar higher once again later in the year.

Apart from its gas production, Tourmaline Oil is Canada's second-largest condensate producer. Condensate prices generally trade higher than West Texas Intermediate (WTO) Oil. So, TOU stands way taller compared to those who have exposure to heavy oil and, in turn, Western Canadian Select.

So, given its higher production in the strong price environment, Tourmaline will likely keep seeing robust financial growth this year. As per the company guidance, it is expected to post free cash flows of $3.7 billion, a decent 18% growth compared to 2022.

Growth prospects for 2023

Interestingly, Tourmaline Oil stock has come down massively in the last few weeks after gas prices lost steam. Since Q4 2022, TOU has lost 25% of its market value, which makes it an appealing opportunity to enter. The discounted valuation and strong earnings growth prospects will likely create handsome shareholder value this year.

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Notably, Tourmaline may have achieved its leverage target in 2022 following its aggressive debt repayments. As a result, a large portion of its free cash flows will now go towards shareholder returns. So, we might see action on the share buyback as well as on the dividend front. While TOU trades near its nine-month lows, discerned investors could consider grabbing this attractive deal.

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