2 TSX Energy Stocks That Could Break Through the Roof in 2023

Description

While oil prices have been stabilized of late, they could head higher again later this year. Chinese demand will be a key determinant for crude oil prices this year amid the re-opening of the economy. Notably, how the Russian supply plays out with the prospect of more economic sanctions also remains to be seen. TSX energy stocks seem well-placed to play the next leg of the crude oil rally. Here are a few attractive bets.

MEG Energy

Canadian mid-cap energy producer stock **MEG Energy** (TSX:MEG) has had an amazing start to the year, gaining 20% so far. It aims to increase production by 8% this year to around 102,500 barrels of oil per day. Higher production in the strong price environment will likely drive its earnings higher this year.

MEG plans to release its Q4 2022 earnings later this month. How much its debt has declined in the past quarter will be key to watch. It has notably strengthened its balance sheet last year thanks to record free cash flow growth.

Apart from financial growth, an expected narrowing of the differential between Western Canadian Select and WTI oil could also push MEG stock higher. The differential has historically been $15 a barrel, which remarkably increased beyond $20 last year. MEG produces heavy oil, which uses WCS as its reference price. As a result, the higher the differential between WTI and WCS, the higher the pressure on MEG stock.

MEG stock returned 53% last year. It is currently trading at a free cash flow yield of 18% and at a cash flow per share of 4.7x. Despite the recent rally, MEG stock looks attractive from a valuation standpoint. It might continue to soar higher if crude oil once again races towards triple-digit levels.

Tamarack Valley Energy

Tamarack Valley Energy (TSX:TVE) stock has dropped 12% in the last 12 months. The $2.5 billion energy producer primarily operates in Alberta and Western Saskatchewan. It has high-quality assets in the Clearwater oil play, which will be a key growth driver for the company in 2023. Tamarack is aggressively investing in Clearwater, which is expected to reduce its long-term transportation and operating costs.

Like peers, TVE has rapidly repaid its debt in the last few quarters. Its net debt halved by Q3 2022 compared to 2021 levels. So, in 2023, it will save on interest expenses compared to last year, ultimately improving the bottom line.

TVE stock is currently trading at a free cash flow yield of 20%, way higher than the industry average. TSX energy stocks currently offer a free cash flow yield of around 16%. TVE's premium yield also means that you will get your money back in five years with ownership in energy reserves of more than 10 years.

Low debt oil plays

Oil prices will most likely trend higher soon due to supply woes and rising demand. While energy stocks' correlation with oil will likely push them higher, a potential earnings boost will further boost investor sentiment.

Most of the sector looks well-positioned for handsome growth in 2023 with record-low leverage and earnings visibility. Moreover, MEG and TVE are more attractive from a valuation perspective and could outperform their peers.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. cleona
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date
2025/07/27
Date Created
2023/02/06
Author
vinitkularni20