2 Top TSX Energy Stocks That Could Beat Vermilion Energy

Description

TSX energy stocks have gained 18% in the last 12 months and outperformed broader markets. While the sector at large will likely continue to play well in 2023, stock selection remains the key. That's because one oil and gas producer name that doubled last year has been fast losing sheen this year. That is **Vermilion Energy** (TSX:VET). VET stock has lost 17% in the last 12 months and is currently trading at its 52-week lows. It has dropped a concerning 55% since its last year's highs in August 2022.

Why Vermilion Energy tumbled to 52-week lows last week

It's not like Vermilion is a bad stock, but a confluence of factors has weighed on it of late. First, windfall taxes on its European production are about to dent its bottom line. Almost one-third of its production comes from Europe, and Vermilion expects around a $250 to $300 million hole in its 2022 profits due to these surplus taxes.

Although management guidance foresees attractive free cash flow growth for the next two years, after considering the impact of taxes, the stock has not revived. And that's because of Vermilion's huge exposure to natural gas production. It has nearly 50% gas-weighted production, which explains the stock's recent rout. Natural gas prices have fallen 75% since mid-2020, terribly lagging crude oil prices.

VET stock is one of the most undervalued names across the sector after its recent drawdown. Thanks to its free cash flow growth and deleveraging efforts, It has achieved the lowest leverage in the last 10 years. Its international assets will likely create handsome value for shareholders in a strong energy price environment. However, the stock could underperform its oil-weighted peers, at least in the short-to-medium term.

So, here are two peer TSX energy stocks that could outperform Vermilion.

MEG Energy

MEG Energy (TSX:MEG) is a mid-cap crude oil producer that has soared 40% in the last 12 months. It looks in great shape this year, with zero exposure to natural gas prices and strong buybacks in January 2023. With oil prices seemingly stable at $80 a barrel and a declining differential between WCS (Western Canadian Select) and WTI oil, MEG will likely play well in 2023.

MEG has some of the largest oil reserves among the Canadian energy space. The heavy oil producer has repaid a billion dollars of debt after record financial growth last year. Supported by a solid balance sheet and free cash flow growth, it will likely maintain the momentum like last year. MEG stock is trading at a free cash flow yield of 18% and looks attractive compared to peers. Free cash flow yield measures a company's free cash flow from operations per share relative to its market capitalization per share, or value.

Baytex Energy

Baytex Energy (TSX:BTE) is another TSX energy stock that could outperform Vermilion Energy.

It has 80% oil and 15% gas-focused production. However, a large chunk of its light oil production receives significantly higher benchmark prices than WTI. This helps obtain higher realized prices and better margins.

BTE stock has returned 18% in the last 12 months, in line with TSX energy stocks. It is trading at a free cash flow yield of 16%. Like MEG and other peers, Baytex saw substantial free cash flow growth and debt repayments last year. The trend will likely continue this year, creating notable shareholder value.

CATEGORY

1. Energy Stocks
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2. TSX:MEG (MEG Energy Corp.)
3. TSX:VET (Vermilion Energy Inc.)

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