



This High-Leverage Energy Stock Is Poised to Continue Soaring

Description

The energy sector is one that's been on a bit of a roller-coaster ride of late. Largely viewed as an [undervalued](#) sector last year, investors are starting to wonder what kind of value might be left among energy stocks today. Indeed, this view makes sense, as valuations continue to hover around all-time highs on a backward-looking basis.

That said, I think there are still pockets of value in the energy sector. One such company I've got on my radar right now is **Arc Resources** ([TSX:ARX](#)). Let's discuss why this energy play could continue to run from here.

Decent upside potential for this energy stock

The recent rise in energy prices we've seen in recent months appears to have plateaued. Accordingly, investors betting on continuously rising oil prices may be inclined to shift their interest elsewhere.

For producers like Arc, the higher commodity price environment is a godsend. Indeed, last year's collapse in commodities hit this company and the energy sector broadly quite hard. As energy prices remain elevated, Arc's balance sheet and income statement receive a boost.

The company's 2.5% [dividend yield](#) is among the line items investors were worried about previously. Due to a range of dividend cuts in the sector, questions as to how safe this dividend truly is have hampered energy stocks during the downturn last year. Today, these concerns have all but abated for companies like Arc.

I think this energy producer has tremendous upside, given the company's improved cash flow outlook. The company's capital reserves remain strong. These should allow for continued expansion of production and balance sheet improvement initiatives. For long-term investors, that's music to the ears.

Bottom line

The rise of environmental, social, and governance (ESG) mandates from many investors have made the energy sector one which is difficult to invest in. Indeed, this is a sector that provides the energy our economy needs to move forward. At the same time, environmental concerns keep many investors on the sidelines.

For those who see a long-term transition toward renewable energy as likely, Arc remains well positioned to assist investor portfolios in providing excellent medium-term results.

I think long-term investors looking to build a portfolio, providing a decent return for the next five to 10 years, have to consider some amount of energy exposure. These stocks are well priced, relative to their earnings potential. Indeed, in a market filled with so many overvalued stocks, Arc provides a breath of fresh air.

CATEGORY

1. Energy Stocks
2. Investing

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