Here’s an Energy Name to Buy Ahead of its Expected Dividend Hike

Description

With WTI oil now quickly closing in on $60, times are rapidly changing for oil and gas companies.

And as investors gain more confidence in oil prices remaining at these levels and maybe even continuing to rise, energy shares will continue to rally, as they are not only benefiting from stronger fundamentals, but also from increased demand from investors who may be re-allocating their portfolios and increasing their weighting in energy.

A company that I have been bullish on for a while now is **Freehold Royalties Ltd.** (TSX:FRU), because as a royalty company with none of the operating costs associated with its production, it is a smart, defensive way to play the energy space.

The company is engaged in the development and production of oil and gas, predominantly in western Canada. It focuses mainly on acquiring and managing oil and gas royalties, and royalty interests currently account for 90% of total production and contribute 97% of operating income.

It’s safe and steady — a low-risk business model for exposure to the energy space. Freehold is for those investors that would like exposure without as much risk as the average energy stock.

And with the real possibility of an imminent dividend hike, this stock makes sense for investors looking for income as well as capital appreciation.

In fact, the company instituted a 25% dividend increase early this year (in March) and is now paying $0.60 per share in annual dividends for a 3.69% dividend yield, and the stock has a year-to-date return of 18%.

With oil trading at these levels, we can increasingly expect companies to ramp up their drilling activity, as the demand environment is still supportive of growth.

In Freehold’s second quarter, the company benefited from a 16% increase in production to 11,270 boe per day and a 16% increase in realized prices to $32.98 per boe.

This translated to a 32% increase in funds from operations and free cash flow of $12.9 million. We can expect more of this in the third-quarter results.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) has stated that if oil stays above $50 for a sustained period of time, the company would ramp up its drilling to take advantage of it.

Third-quarter production increased a modest 3%, while Baytex's realized price per boe increased 20% to $38.04, and funds from operations per share of $0.33 was above expectations. For the first nine months of the year, funds from operations per share increased 8.5%.

With earnings season continuing, we can safely expect most energy companies to beat expectations and estimates to be increased, which will fuel the rally we are seeing in energy shares. Freehold is one to turn to for income and safety within the energy sector.

CATEGORY

1. Dividend Stocks
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