



Here's the Energy Stock to Own in 2018

Description

While the price of oil has risen 15% since last year, **Freehold Royalties Ltd.** ([TSX:FRU](#)) has fallen 6.5%.

This is a company that I have been bullish on for a while now, as it is a great way to gain exposure to the Canadian energy sector. 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.

And with strong results in the first nine months of last year, a [dividend hike](#) last year, potentially another dividend hike when the company reports full-year 2017 results in March, and a current dividend yield of 4.7%, Freehold is in good shape.

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 contributes 97% of operating income.

In the first nine months of 2017, revenue increased 26%, cash flow increased 44%, and the company's payout ratio was a very strong 55%.

The company's debt has been reduced, as free cash flow of \$94 million was put to use to pay off \$36 million of debt and for \$34 million in acquisitions, thus positioning the company for future growth through acquisitions of additional opportunities.

It's safe and steady and has 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.

Another opportunity for investors looking for a higher-risk stock for a higher potential return is **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE).

The company is seeing internal rates of return in the 40-80% range on a per-well basis and is funding its capital-expenditure program with cash flow.

As a reminder, at \$50 per barrel, Baytex is free cash flow neutral; at \$55 per barrel, Baytex generates incremental free cash flow of \$75 million; and oil at \$65 per barrel means incremental free cash flow of \$175 million.

And so with oil still above \$60, operational momentum continuing, and a more than four times the interest coverage ratio on the company's \$1.5 billion in debt, things are looking good.

Baytex reports full-year 2017 results on March 8.

So, these are two energy names that I expect will make investors happy this year. Choose among them according to your risk tolerance and stay tuned for upcoming results when the stocks could potentially rally off strong fundamentals.

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1. Editor's Choice

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1. TSX:BTE (Baytex Energy Corp.)
2. TSX:FRU (Freehold Royalties Ltd.)

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