Should Investors Buy Growth or Dividend Stocks for Energy Exposure?

Description

As oil continues to show strength and is maintaining levels close to $70, investors may want to start thinking about increasing their exposure to the energy sector.

Is it better to invest in an energy stock that is a growth stock or a dividend stock?

Well, the answer to this question will depend on the investor's needs and risk tolerance, and the best answer is probably a bit of both.

Let's take a look at three top energy stocks that are good buys at this time.

Freehold Royalties (TSX:FRU)

First up is Freehold Royalties.

Currently yielding 5.18%, Freehold has been a reliable and steady energy stock that investors have done well with.

The company has instituted numerous dividend increases recently, and with strong free cash flows and a payout ratio of below 60%, investors can very likely expect more dividend increases in the near future.

Freehold's royalty business model is a low-risk model for exposure to the energy space. This is for those investors that would like exposure without as much risk as the average energy stock.

Pason Systems (TSX:PSI)

The other dividend-paying energy stock that is a very attractive option for investors is Pason, a global energy services company that currently has a dividend yield of 3.36%.

Pason continues to be an “oilfield services” company that is just as much a technology company, witha clear dominance in Canada and the opportunity to continue to expand into new products, industries, and geographic markets.

The company’s competitive advantage lies in its technology that it continues to bring to the market, making the oil and gas business a less risky and more profitable one for its customers.

Pason has a strong track record and when we look at its history, we can see evidence of strong cash flow generation, consistent dividend increases and a very profitable business model.

In the latest quarter, the first quarter of fiscal 2018, the company reported a 25% increase in revenue, a four-basis-point increase in EBITDA margins, and a 60% increase in funds flow from operations.

Baytex Energy (TSX:BTE)(NYSE:BTE)

As the only non-dividend-paying energy stock in this list, Baytex Energy is the one that has the most upside in its share price but also the most risk.

The company announced the acquisition of **Raging River Exploration** recently, which diluted the existing shareholder base and sent the stock tumbling almost 30% to current levels

The actual merger looks really good, though.

It strengthens Baytex’s balance sheet, bringing its net-debt-to-equity ratio to below two times from three times, and it diversifies its production base, giving the company quality light-oil assets and land in the Duvernay area in Alberta.

So, on a go-forward basis, the two biggest issues with the stock have been addressed.

And since the stock declined in response to this dilutive deal, it is a very attractive buy.

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2. TSX:FRU (Freehold Royalties Ltd.)
3. TSX:PSI (Pason Systems Inc.)

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