Which Energy Stock Is the Better Buy: Crescent Point Energy Corp. (TSX:CPG) or Freehold Royalties Ltd. (TSX:FRU)?

Description

Are analysts warming up to Canadian oil and gas stocks? Do you want to be there when these stocks rally from current undervalued levels?

With West Texas Intermediate (WTI) oil currently trading at $62.30, we have reason to be optimistic again. At these prices, many energy companies are raking in the profits and leaving the doldrums behind.

As far as Canadian oil prices go, the story is just as bullish. With the Western Canadian Select (WCS) oil price trading at $54.21, we have seen a reversal of the heavy discounts of 2018.

This is all good news for energy stocks.

Now, let's look at two energy stocks with the goal of figuring out which one is the better buy at this time.

Crescent Point (TSX:CPG)(NYSE:CPG)

Once an investor darling that could do no wrong, Crescent Point stock has fallen hard since its heyday (down 80%). It is one oil and gas stock that many investors are consistently interested in.

That's understandable, as the company is very crude levered (90%), and it has an enviable resource base with exposure to large resource plays in lucrative areas, such as the Bakken, that have low-risk development opportunities with strong economics.

Although a shift in strategy has been implemented to focus on sustainability, years of focusing on production growth rather than shareholder returns has more than caught up with the company.

Currently, production is flat versus last year and is expected to remain pretty much flat in the next couple of years, as the company's growth-via-acquisition story is a thing of the past.

Over the last 10 years, the company has a history of issuing equity to make acquisitions, effectively diluting shareholders in the process and leaving a bad taste in their mouths.

Other worrisome points and reasons to stay away from the stock are its low 1% insider ownership and its payout ratio, which is at 150% of earnings.

So, although the latest quarter, the fourth quarter of 2018, was better than expected, this transformation will take time. Crescent Point has too much downside and remains one stock to avoid.

Freehold Royalties (TSX:FRU)

Energy stock Freehold Royalties is one that gives shareholders both a high dividend yield as well as the potential for big capital gains.

It is the less-risky option relative to Crescent Point and the energy stock I favour.

Freehold's dividend yield currently stands at 7.29%. It is a dividend that is easily covered by cash flows, with a 65% payout ratio at current prices.

These dividend payments also have high visibility, as the company's low-risk business model, its attractive payout ratio, and its healthy balance sheet can attest to.

Although we continue to see consistently strong results out of Freehold, its stock remains depressed, providing investors with a solid opportunity.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:FRU (Freehold Royalties Ltd.)
3. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

3. Investing

Date
2025/07/20
Date Created
2019/04/06
Author
karenjennifer