



## 3 Top Energy Stocks for Strong Upside

### Description

Oil prices are trading at much healthier levels for energy companies: Brent oil is going for more than US\$70 per barrel, WTI oil is going for more than US\$60 per barrel, and the Western Canadian Select oil is going for more than US\$50 per barrel.

Here are three [top energy stocks](#) for strong upside.

### Freehold Royalties ([TSX:FRU](#))

Freehold Royalties is a relatively low-risk energy stock that's generally lower risk than investing in individual oil and gas producers. The royalty company receives oil and natural gas revenue from about 300 industry operators that operate on its diverse portfolio of properties in western Canada.

Freehold Royalties earns about 99% of its operating income from royalties. Healthy oil prices will lead to increased activity in oil and gas production, which should, in turn, increase the company's cash flow generation.

At the end of 2018, Freehold Royalties estimated an adjusted funds-from-operations payout ratio of 76% for 2019, which should keep its monthly dividend safe. The annual payout of \$0.63 per share implies a yield of more than 6.7% as of writing.

The stock has strong upside potential. **Thomson Reuters** analysts have a mean 12-month price target of \$12.20 per share on the stock, which represents 31% near-term upside potential from \$9.31 per share as of writing. Combined with the dividend, near-term total returns potential is nearly 38%!



## Parex Resources ([TSX:PXT](#))

Parex is engaged in oil production in Colombia, which allows it to enjoy the premium pricing of Brent oil. That's an advantage of roughly US\$20 per barrel over its peers that operate in Canada! Another advantage that it has is that there is no pipeline issue in Colombia, whereas the pipelines are at full capacity in Canada.

Thanks to its Brent oil production, Parex Resources stands out as a high-margin business with big profits. Its recent net margin of 48.4% took the lead in the industry, and it brought in US\$833 million of revenue and US\$403 million of net income. Its 2018 return on assets and return on equity were also very high at 28% and 37%, respectively.

The stock has double-digit upside potential. Reuters analysts have a mean 12-month price target of US\$22.40 per share on the stock, which represents 28% near-term upside potential from CAD\$22.73 per share as of writing (using a more conservative foreign exchange rate of US\$1 to CAD\$1.30).

## Enerplus ([TSX:ERF](#))([NYSE:ERF](#))

Enerplus is focused on producing Bakken oil in the Williston Basin in North Dakota and shale gas in the Marcellus in northeast Pennsylvania. Its production mix is about 45% natural gas, and it has been focusing on light oil growth with liquids production growth. It targets for production growth of about 9% this year and 10-13% from 2020 to 2021.

Because of Enerplus's production focus in the U.S., which allows it to enjoy premium pricing to its Canadian peers, its recent net margin of 29.3% is very high compared to the industry's. Enerplus's three-year cash flow growth rate was 15%. And the company expects its high-margin business to accelerate free cash flow generation with a WTI price of above US\$50 per barrel

The stock has strong upside potential. Reuters analysts have a mean 12-month price target of \$17.40 per share on the stock, which represents 41% near-term upside potential from CAD\$12.33 per share as of writing. Enerplus also offers a yield of about 1%.

## Foolish takeaway

Freehold Royalties, Parex Resources, and Enerplus are the [top energy stocks](#) to buy for strong upside

if you're bullish on energy prices. At current levels, they have about 30-40% 12-month upside potential.

## CATEGORY

1. Dividend Stocks
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1. NYSE:ERF (Enerplus Corporation)
2. TSX:ERF (Enerplus)
3. TSX:FRU (Freehold Royalties Ltd.)
4. TSX:PXT (PAREX RESOURCES INC)

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