



2 Oil Royalty Companies to Buy Before Month-End

Description

I love royalty companies as income producers. Over the past several years, I've bought into many companies that focus on purchasing interests in assets in return for steady cash flows.

Two of my favourite royalty companies have been **Franco Nevada Corp.** ([TSX:FNV](#))([NYSE:FNV](#)) and **Alaris Royalty Corp.** (TSX:AD), both of which have produced growing dividend yields over the years.

It was actually my recent research into Franco Nevada that led me to two royalty companies that I haven't considered in quite a while. You see, Franco Nevada has recently expanded its royalty portfolio into the oil and gas sector, which brought me back to two pure-play oil and gas royalty companies.

The two royalty companies

Two of the biggest pure-play royalty companies in Canada are **Prairie Sky Royalty Ltd.** ([TSX:PSK](#)) and **Freehold Royalties Ltd.** ([TSX:FRU](#)). These two companies have pretty fantastic yields and are trading at nearly all-time lows.

But do these attributes make these two companies a compelling buy today or should you avoid these pure-play royalty companies like the plague or back up the truck?

The first positive news that makes these a buy is that insiders have been purchasing shares over the past couple of years. This indicates an encouraging move, as insider ownership speaks to the faith they have in the companies' respective futures.

Another positive attribute is the fact that, as a royalty company, neither company has production risk. They have no equipment, few employees, and very little overhead.

The biggest risk is whether anyone decides to use their land for production and whether the reserves run out. Much of the land is for both companies is also on Canadian soil, although Freehold does own some land such as its recently purchased North Dakota properties. This means that there is not much in the way of geopolitical risk facing the two dividend payers.

But what about the yield?

Both [Prairie Sky](#) and Freehold pay generous yields of around 6% and 10%, respectively at current share prices. They also stated in their most recent reports that these [dividends](#) are currently sustainable.

The company stated that its payout ratio is about 93% as of the third quarter of 2019. While this does make the payout currently sustainable, the fact that it's sitting at that high a level is a bit worrisome.

Freehold was very positive on its payout, stating that the high yield was within its target payout ratio of 60-80% of funds flows. Currently, the company asserts that it has a payout ratio of 67% of funds flows, making the 9% yield very sustainable for the time being.

The bottom line

Investors getting into the oil and gas sector at this level are going to see massive price appreciation on top of the generous yields that companies like Prairie Sky and Freehold are offering. There is an old saying that you should buy when there is "blood in the streets."

Well, in the case of oil stocks, these things have been bled dry. They are so unloved, so out of favour, and yet so fabulously profitable that at some point someone is going to take a look at these things.

In fact, at the moment one of the main buyers of oil stocks are the companies themselves. Prairie Sky and Freehold are no exception, buying back their own shares.

While these companies are currently on sale, that won't last forever. Don't miss out on getting into high-yielding oil plays like these two stocks before they turn around.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)
2. TSX:PSK (PrairieSky Royalty Ltd.)

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Date

2025/07/22

Date Created

2019/11/26

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