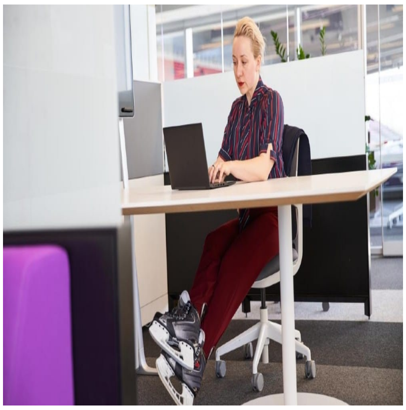

TSX Energy Stocks: 1 of the Lowest Risk Investments

Description

Much of the focus on some of the hardest-hit stocks on the **TSX** has mostly gone to retail and hospitality companies, with less attention on energy. While these businesses are suffering greatly, several other businesses have seen substantial negative impacts.

Energy companies have been some of the worst. Any time a big hit to demand forces a rapid crash in commodity prices, energy businesses feel the impact. Those negative implications are further complicated by Canada's lack of export markets.

The resulting complications generally cause massive sell-offs in TSX energy stocks, which for savvy long-term investors, can be the perfect opportunity to buy these stocks severely undervalued.

Why TSX energy stocks are so cheap

TSX energy stocks are incredibly cheap and offer investors significant value for a lot of the reasons mentioned above.

The commodity business is unprofitable and extremely risky when commodity prices fall for sustained periods. That goes for all commodity companies, but TSX energy stocks tend to underperform other countries.

This is based on our poor export situation, which in turn, hurts Canadian pricing even more. So all this causes several foreign and domestic investors to flee the space as commodity prices decline.

And while this risk is very real, if you do your homework and find highly resilient stocks, you could set yourself up to make a fortune when things return to normal.

TSX energy stock to buy today

One of the best deals you'll find today in energy stocks is **Freehold Royalties Corp** (TSX:FRU).

Freehold is a royalty company that owns the land that energy companies produce on. This is an extremely low-risk way to get exposure to the energy industry.

Because it's a low-risk business model, Freehold is one of the best choices for investors looking for energy exposure. Plus, on top of its business model, the company has very little in debt, setting itself apart from several other TSX energy stocks that carry significant debt loads.

In the first quarter of 2020, there was almost no impact from COVID-19 on business, and results were strong. Going forward, it looks as though the business will begin to see impacts in the second quarter.

Freehold, however, is already prepared for lower business activity. The low-risk business already cut its dividend by 70% in April, in anticipation of production cuts.

And 70% is pretty extreme; however, in an uncertain environment, it's better to be conservative. And if the market recovers faster than expected, Freehold can increase the dividend.

Not only is Freehold one of the lowest risk TSX energy stocks, but it's also trading at an extremely attractive valuation.

As of Friday's closing price, Freehold was down more than 55% from its 52-week high. Furthermore, at these low prices, the stock is offering a yield of roughly 4.7%, and that's at the reduced rate.

If the market was to recover quickly, the dividend could be rapidly increased again, significantly improving the yield-on-cost for investors buying today.

Bottom line

If you're looking for a TSX energy stock, but have been worried about the risk, Freehold is the choice for you. It still has a massive upside, like the rest of the industry. However, it will remain robust if low commodity prices remain.

CATEGORY

1. Coronavirus
2. Dividend Stocks
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1. TSX:FRU (Freehold Royalties Ltd.)

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