



This Stock Has Doubled My Money Over the Last Year: Here's Why I'm About to Buy More

Description

Over the last year, there's no question that energy stocks have been some of the best to buy. At the end of 2020, these stocks were still significantly [undervalued](#). Not only have they rallied back to fair value, but with the macroeconomic tailwinds that they've seen, namely massive inflation, energy stocks continue to be some of the best performers. In many cases, energy stocks have doubled investors' money since their recovery began.

And now, with the ongoing war in Ukraine and subsequent sanctions on Russia's energy industry, energy companies continue to be some of the top stocks to buy, especially if you're looking to offset the impacts of rapidly rising costs.

One of my top holdings, **Freehold Royalties** ([TSX:FRU](#)), has seen an impressive rally in the last 12 months. In addition, it pays an attractive dividend and has increased that dividend four times over that timeframe. So, with the rally in the price of Freehold, and the impressive dividend payments that it's been making, investors have earned a 115% return in Freehold over the last 12 months.

In total, from the worst of the pandemic, Freehold has increased its dividend six times, and it now pays out 50% more cash each month than it even did before the pandemic. And since it began its recovery in November of 2020, Freehold has earned investors more than 300% in just those 16 months.

So, here's why I'm strongly considering adding more of this top Canadian energy stock that's already more than doubled my money.

Why Freehold is one of the top stocks to buy after it's already doubled my money

First off, Freehold has always been an excellent energy stock to buy with an attractive business model. The company is one of the lower-risk ways to gain significant exposure to commodity prices.

Freehold is lower risk than a regular producer, because it doesn't really have its own operations. Instead, it collects a royalty from other companies producing energy on its land. And with exposure to more than 300 businesses, that revenue is well diversified.

Plus, in addition to being a lower-risk energy stock that still offers significant upside as the industry rallies, Freehold also has an incredibly strong [balance sheet](#), with hardly any debt on its books.

These are the main reasons Freehold is an excellent stock you can hold for years. But why is it one of the best stocks to buy today? I believe Freehold can be one of the biggest gainers, as the energy industry sees a massive tailwind.

Firstly, as Canadian and American energy companies increase their production, that will impact Freehold positively. While it can't control how much production is increased, Freehold also doesn't have to pay for any of this growth. So, as production increases, Freehold can realize a massive increase in cash flow. In addition, as prices increase, that will also positively affect the company's income.

There is significant upside potential in the share price, especially with all the massive tailwinds that continue to push energy prices higher. Furthermore, in addition to share price growth, the increase in Freehold's revenue and net income will also lead to more significant dividend increases down the road.

Typically, Freehold aims to pay out 60-80% of its free cash flow. In a conservative estimate of what energy prices might be this year, Freehold's payout ratio is still only expected to be at the bottom of its 60-80% range at the current monthly dividend of \$0.08 a share.

It's this low-risk business model coupled with the growth potential, as production increases in North America, that gives Freehold a tonne of upside.

Analyst target price increases

Unsurprisingly, after posting strong earnings this week and increasing the dividend, several analysts increased their target prices for Freehold. That average target price is nearly \$18 a share and sitting at a roughly 24% premium to Thursday's closing price.

\$18 a share at the current annual dividend of \$0.96 would imply a dividend yield of 5.3% — a reasonable valuation for Freehold today.

Therefore, with so much opportunity in the energy industry today, and high-quality stocks like Freehold that can double your money, if you're looking for a stock to buy today, these are some of the best to consider.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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