



## 3 Undervalued Energy Stocks to Put on Your Radar

### Description

Many energy stocks are trading at high levels. They're bound to dip on days when the underlying commodity prices pull back. Expect volatility, as much of the energy price surge has been driven by the Russia-Ukraine war.

With that said, here are three undervalued energy stocks you can put on your radar to potentially pick up on down days. As of writing yesterday, oil prices are down 5% but are still holding up above US\$100 per barrel, which is still highly positive for energy stocks. In comparison, **Parex Resources** ([TSX:PXT](#)) stock was down less than 1%, **Freehold Royalties** ([TSX:FRU](#)) stock dropped by 1%, and **Parkland** ([TSX:PKI](#)) stock fell just under 1%.

### Parex Resources

Calgary-based Parex Resources enjoys premium Brent oil pricing. It is the largest independent oil and gas company in Colombia with a land position of approximately 5.8 million net acres. Management is focused on growing production and reserves on an absolute and per-share basis.

Importantly, the oil and gas producer enjoys industry-leading profitability with the highest expected cash flow netback this year versus 20 other peers. What's also critical is that Parex Resources has a clean balance sheet with essentially no debt. Its liquidity ratios are strong. For example, its most recent current ratio was 2.3. It is also strongly solvent. Its recent debt-to-assets ratio was 4.6.

The energy stock's trailing-12-month free cash flow generation was US\$322.1 million versus 2019's normalized levels of US\$216.5 million. Parex had so much cash flow coming in that the stock began paying a dividend last year. It just raised its quarterly payout by 12% last quarter. Its payout ratio is estimated to be about 9% of earnings and 22% of free cash flow this year, which provides a margin of safety for its 2.1% dividend yield.

According to the analyst consensus 12-month price target on Yahoo Finance, [Parex Resources](#) is undervalued by about 34% and has near-term upside potential of close to 50%!

## Freehold Royalties

Freehold Royalties is a lower-risk name in the energy space. Ryan Bushell explained why last month on *BNN*:

“Freehold Royalties is a conservative way to enter the oil and gas space. It doesn’t have the risks of labour costs, capital, and geography. Its dividend is up 400% in the last year and they just raised it again. He’s still buying.”

*Ryan Bushell, president and portfolio manager at Newhaven Asset Management*

At \$15.83 per share at writing, Freehold Royalties stock yields just above 6%. Analysts think the monthly dividend stock is undervalued by 17% with 21% near-term upside potential. So, 12-month total returns of about 27% is possible when combining price appreciation potential and dividends.

## Parkland

Parkland is another lower-risk energy stock. Last month, David Baskin commented:

“Parkland has its own refinery, which is unusual for a small company, but good as it gives it access to cheap gas and diesels. It has many service stations in the Canadian west and U.S. northwest in under-served areas with little competition. This helps profit margins. Some question what will happen when we transition to electric cars. People will still need to charge their cars, so Parkland can install chargers. It pays a strong dividend. This has room to move up.”

*David Baskin, president of Baskin Wealth Management*

At \$36.50 per share at writing, the dividend stock is [undervalued](#) by 25% with 33% near-term upside potential. So, 12-month total returns of about 36% is possible when combining its price-appreciation potential and its 3.6% yield.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)
2. TSX:PKI (Parkland Fuel Corporation)
3. TSX:PXT (PAREX RESOURCES INC)

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