



5 Reasons I Just Bought Freehold (TSX:FRU) Stock

Description

Since the start of 2021, Canadian energy stocks have had tonnes of momentum. Like many other stocks in the economy, energy stocks were hammered by the pandemic and traded well undervalued for much of 2020 and a lot of 2021. In early 2021, when I saw **Freehold Royalties** ([TSX:FRU](#)), one of the best Canadian energy stocks trading ultra-cheap, I took advantage of the opportunity and bought some shares.

Then again, this year, not only was I looking to increase my exposure to the energy industry once again, but it also began to gain even more momentum. I decided to increase my exposure to Freehold stock, despite the fact that it had already more than [doubled my money](#).

As [Warren Buffett](#) has advised before when looking to make new investments, what better place to start than the stocks you already own? After all, why would you own these companies in the first place if they aren't the best of the best?

If you've been looking to gain exposure to high-quality energy stock, here are five reasons why I bought Freehold last year and then again last month.

Freehold is an excellent stock for low-risk passive income

Plenty of energy stocks offer attractive dividends, but Freehold stock, thanks to its operations, offers much lower risk than several of its energy peers. In addition, while the stock still offers tonnes of growth potential as energy prices rise, it also pays a hefty dividend which currently offers a [yield](#) of approximately 6.2%.

That's an impressive yield considering you often have to take on more risk or sacrifice growth potential to earn that much passive income.

The stock has a conservative payout ratio

A 6.2% yield may seem high, and it could seem as though Freehold is returning investors most of its cash flow and leaving little cash to finance future acquisitions. In reality, though, Freehold stock is just undervalued.

Right now, while the dividend does offer an impressive yield, the payout ratio is still conservative at right around 60% of its estimated 2022 free cash flow. So, the dividend is extremely safe, and there is even room for another dividend increase over the coming months should energy prices continue to rally.

Freehold stock has almost no debt

Another reason why Freehold is such a high-quality and low-risk energy stock is that, unlike many of its peers, the stock has almost no debt. With a market cap of more than \$2.3 billion and total debt of less than \$150 million, its balance sheet is incredibly strong.

Royalty companies are attractive businesses in the energy sector

One of the most significant reasons why I bought Freehold stock and why it's such an excellent investment long term is because it's a royalty company and not an energy producer itself.

This means that the company simply owns land that other energy companies produce oil and gas on. And in return, Freehold receives a royalty.

This is an excellent low-risk strategy to gain exposure to energy and shows why Freehold is such a high-quality dividend stock.

Plus, when production needs to be increased, such as in the current environment, Freehold doesn't have to spend any of its own capital to fund growth, yet it's still exposed to the increasing production. Therefore, the economics of its business makes it a highly attractive investment, especially for long-term investors.

Freehold offers exposure to production south of the border

One of the least major reasons why Freehold is such an excellent energy stock to buy is that it offers exposure to energy production south of the border.

While the majority of its land is still in Canada, recently, Freehold has been acquiring property in the United States. This is attractive for several reasons. Firstly, it helps to make the stock even lower risk by diversifying geographically. However, it also offers more opportunities for Freehold.

For example, if Canadian producers can't ramp up production due to pipelines being at capacity, having exposure south of the border will be key.

So, if you've been looking to buy a high-quality energy stock, or even just a long-term dividend stock, in my view, Freehold is one of the best investments you can make today.

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