This Energy Company Is 1 of the Best Canadian Stocks to Buy After the Recent Selloff

Description

Market selloffs create some of the best buying opportunities for investors. This is a well-known fact. However, sometimes selloffs will only include stocks from particular industries and sectors. In recent weeks, though, we've seen the market selloff extend to the broader market. And now, even high-quality energy stocks are getting cheap and have become some of the best to buy.

There are a variety of reasons why all stocks are being impacted. Energy stocks, though, which have been experiencing some significant tailwinds over the past few months, have also been selling off recently. With worries of a global recession continuing to increase and the continued resurgence of COVID around the world, the fear and uncertainty has been causing energy stocks to selloff.

However, with the significant potential that these companies have in the current environment due to the war in Ukraine, there is a tonne of opportunity over the longer term for these stocks to expand their operations, especially if you buy a high-quality stock.

So, while these stocks have pulled back and are trading undervalued, if you need more exposure to energy, now is certainly an excellent time to consider pulling the trigger. And if you're looking for high-quality energy stocks today, one of the best to buy has to be **Freehold Royalties** (TSX:FRU), which, after Tuesday's close, is now trading almost 15% off its high.

Why Freehold Royalties is one of the best energy stocks to buy now

Freehold has been one of the best energy stocks to buy for a while, but after it reported earnings Tuesday after the close, it once again showed why it's such a high-quality business to own, especially in this environment.

Freehold is an energy company that acquires land and royalty rights, gaining exposure to the production of energy companies that are producing oil and gas on its land. This is a lower-risk way to gain exposure to the energy industry thanks to Freehold's business model but also due, in large part, to how well Freehold is run.

Freehold's quality was on display again in the first quarter when the company managed to generate incredible free cash flow.

Although the production that Freehold is exposed to was actually slightly lower in the first quarter than it was at the end of 2021, because energy prices have been surging, Freehold saw a 22% increase in revenue per barrel of oil equivalent (BOE). This led to a total revenue increase of 16% quarter over quarter.

However, one of the most impressive takeaways of Freehold's earnings and one of the major reasons why it's one of the best energy stocks to buy now, was the fact that on just $88 million in revenue, Freehold managed to earn $73 million of free cash flow.

Those are incredible margins, and considering the stock is only paying out about $36 million per quarter at the current dividend rate, it's clear that not only is Freehold stock a highly efficient energy company, but it's also considerably cheap.

Bottom line

Freehold has always been an excellent Canadian energy stock. However, considering the market environment and Freehold's value today, it's certainly one of the best energy stocks to buy now.

At the current price, Freehold is offering investors a free cash flow yield of more than 13.6% and a dividend yield of roughly 6.8%.

Not only that, but Freehold typically likes to keep its payout ratio between 60% and 80% of free cash flow. Therefore, in addition to being undervalued, it also offers an incredibly safe dividend that could again be increased over the coming quarters.

If you're looking to add energy stocks to your portfolio in this environment, Freehold is easily one of the best you can buy.

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