



## 2 Top Energy Stocks That Can Continue to Rally

### Description

Energy stocks have been some of the best performers throughout the year, as the sector has experienced significant tailwinds. However, even after this impressive performance and now a potential recession looming, plenty of top energy stocks are worth a buy, as they still offer more upside.

On Wednesday, the International Energy Agency warned that oil demand could grind to a halt in the fourth quarter due to a weakening global economy, particularly in China. However, it also said that it expects demand to pick back up again come 2023.

Furthermore, with the ongoing war in Ukraine and producers around the world unwilling or unable to increase their capacity substantially, energy prices should remain high for some time.

Therefore, while the rally in energy stocks is on hold, now is an excellent time to buy these top Canadian stocks.

### One of the top energy stocks to buy and hold for years

If you're looking to increase your exposure to energy, one of the first stocks to consider is **Freehold Royalties** ([TSX:FRU](#)). Freehold is one of the top energy stocks to buy because it has a low-risk business model, offers attractive passive income, but also has a tonne of long-term growth potential.

Rather than producing oil and gas itself, Freehold owns the land that other companies use to produce energy in exchange for royalties.

This asset-light business model helps to reduce risk immensely. It's also why Freehold is able to generate tonnes of [free cash flow](#), particularly in this environment.

And although the stock has increased its dividend on seven separate occasions over the last two years, its payout ratio is still below 60% of its free cash flow. That not only makes the dividend ultra-safe but also allows the company to retain capital that it can invest in growing its portfolio.

And lately, Freehold has made some value accretive acquisitions south of the border.

Therefore, Freehold is one of the top energy stocks you can buy and hold for the [long run](#). It's undervalued today, offers a dividend yield of roughly 7.1%, and it can continue to grow its earnings, particularly if the tailwinds in the energy sector continue to persist.

## Integrated energy companies make excellent long-term investments

In addition to Freehold, another high-potential energy stock that you can buy today and hold for years to come is **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), the massive integrated energy stock.

Suncor is one of the top energy stocks to own for the long haul because it doesn't just produce oil and gas, although that is a large portion of its business. The stock also has downstream operations, such as refining and retailing through its roughly 1,800 Petro Canada locations across the country.

The fact that Suncor is vertically integrated and well diversified is extremely significant, particularly if you're looking to buy the stock and hold it for the long term.

Its operations help the stock to be more defensive and earn strong cash flow even if the price of [oil](#) and gas is falling. And in this environment, Suncor has the opportunity to continue growing value for shareholders rapidly.

This is why it's no surprise to see Suncor spend a tonne of money in recent quarters to buy back shares as well as fund its dividend, which was just increased in May. In fact, Suncor spent over \$3.2 billion returning capital to shareholders in the second quarter, roughly 80% of the free cash flow it generated in the quarter.

So, with the massive energy stock now trading roughly 20% off its high and offering a dividend yield of roughly 4.4%, there's no question that it's one of the top energy stocks to buy now.

### CATEGORY

1. Energy Stocks
2. Investing

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2. TSX:FRU (Freehold Royalties Ltd.)
3. TSX:SU (Suncor Energy Inc.)

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#### **Date**

2025/07/01

#### **Date Created**

2022/09/17

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