



Should you Buy Energy Stocks in October?

Description

As most stocks have sold off throughout the year due to the market environment and the effects that rapidly rising inflation could have on their operations, energy stocks have been some of the few exceptions. Energy stocks were some of the hottest stocks to buy at the start of the year and have continued to be some of the only companies gaining value in 2022.

Part of the strong performance at the beginning of the year had to do with the sector still in the midst of recovering from the pandemic. And then, by late February, the Russian invasion of Ukraine and the resulting sanctions created tonnes of tailwinds for North American energy stocks.

However, throughout 2022, inflation, which has been the main consequence of higher energy prices, has severely impacted the global economy and created the potential for a recession as soon as the end of this year.

This anticipation of a recession has weighed on energy prices in recent months. So, unsurprisingly, many energy stocks have pulled back from their 52-week highs.

But does this give investors the opportunity to buy these top Canadian energy stocks in October, or is there more downside potential to come, as a recession looks increasingly likely next year?

Are energy stocks worth a buy in October?

When it comes to investing in energy stocks in today's environment, there are tonnes of short-term factors that could have an impact on the price of energy.

A recession next year would certainly hurt demand and, therefore, the price of energy. However, there are more potential positive catalysts for the industry, too.

The longer that Russia keeps the war going with Ukraine, the more energy will be needed from North America.

Furthermore, for six months, the United States has been pumping one million barrels per day of oil into the markets from its Strategic Petroleum Reserve. That's expected to end at the end of October, which should give energy stocks more tailwinds and could make these some of the best stocks to buy now.

At the end of the day, it's too difficult to try and speculate on what short-term developments could come to fruition. Instead, you're much better off finding a high-quality energy stock that you believe has a tonne of [long-term](#) potential but also one that trades at an attractive valuation today.

And while there are several choices that investors can make, one of the best energy stocks to buy in October has to be **Freehold Royalties** ([TSX:FRU](#)).

Freehold offers investors significant upside and a 7.8% dividend yield

Freehold is one of the best energy stocks you can buy as we approach October for several reasons. First off, it's a high-quality business that has slightly less risk than other energy stocks, since it collects a royalty from the energy produced on its land rather than producing energy itself.

This allows Freehold to earn a tonne of cash flow, which it uses to fund the dividend and save to invest in future growth.

However, in addition to Freehold's attractive business model, and its ability to continue investing in more long-term growth, the stock is also trading at an appealing valuation after the recent selloffs.

At less than \$14 a share, Freehold is trading at an [enterprise value](#) to an estimated 2023 free cash flow ratio of just 6.1 times. Historically, that's been closer to 10 times for Freehold.

In addition, its dividend, which offers a massive yield of more than 7.8%, is expected to have a payout ratio of just 46% of its expected free cash flow in 2023.

So, while Freehold trades at such a significant discount and offers an incredible dividend yield, it's certainly one of the best energy stocks that you can buy in October.

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