Freehold Royalties Stock – Can This Top 2022 Gainer Keep on Running?

Description

2022 was a year to forget for most investors. After a multi-year bull market and incredible performances from the stock market driving the value of our portfolios higher, many stocks saw significant sell-offs in 2022 as the economic situation rapidly worsened. One stock, though, that had an impressive performance through 2022 was **Freehold Royalties** (TSX:FRU) stock.

By the end of 2022, the **TSX** had earned investors a yearly return of approximately -8.7% after factoring in dividends. Freehold, on the other hand, not only earned a positive return throughout the year, but it also provided investors with a total return that was upwards of 45.1%.

Like many other energy stocks, Freehold was one of the few gainers in Canada. Much of its strong performance had to do with the economic environment and surging energy prices after Russia invaded Ukraine.

However, now that energy prices have come back down significantly since their peak in early 2022, you may be wondering if stocks like Freehold Royalties can continue to outperform the market in 2023.

Can Freehold Royalties continue to outperform in 2023?

Just like most energy stocks, much of Freehold's profit and, consequently, the direction of its share price is dependent on the price of energy.

As prices rise, Freehold earns more money for each barrel of oil that's produced on its land. Additionally, the more oil prices rise, the more other energy companies are incentivized to increase their production of energy. So over the long-term, rising prices lead to more production growth that Freehold can earn a royalty on.

However, that also means that as energy prices decline, stocks like Freehold can temporarily see reductions in profit margins, and possibly even operate at a loss.

This is why, when analyzing energy stocks like Freehold, it's important to pay attention to the commodity markets. But it's also even more important to consider its long-term potential.

Paying attention to commodity prices is crucial to understand how a stock is trading and why. For example, over the last three months, Freehold Royalties stock has actually lost value.

However, it's also worth noting that commodity prices fluctuate similarly to stocks. So predicting how they will move in the short term can be extremely difficult.

Therefore, to determine Freehold's long-term potential, we have to focus on its core business and opportunities for growth.

One of the best energy stocks to buy for the long haul

One of the reasons Freehold Royalties had such an excellent performance in 2022 and why it's such an excellent stock to buy for the long haul is its asset-light business model.

Because the stock owns the land that other energy companies use to produce oil and gas, Freehold has much less risk than most of its peers. As a result, its break-even level is much lower and, more importantly, it has no capital expenditures.

Therefore, it has less risk than many of its peers. What's more, it's the ideal dividend stock since it constantly earns tonnes of free cash flow.

Plus, the dividend that it pays, which was increased twice in 2022, currently offers a more than 7.2% yield. Furthermore, even with the price of oil falling in recent months, the stock is still expected to pay out just 60% of its free cash flow in 2023. That suggests that not only is the dividend safe, but Freehold Royalties stock can also continue to build its cash position throughout the year.

And going forward, since Freehold continues to retain cash to invest in growth, it can continue to acquire land, especially south of the border, to expand its portfolio. That's what makes the stock one of the best long-term investments in the energy sector.

Finally, after selling off and now trading more than 15% off its 52-week high, Freehold Royalties stock offers a slight bargain for investors to buy today. At roughly $15 a share, the stock is trading at a forward price-to-free cash flow ratio of just 7.1 times, below its three-year average of 8.6 times.

So if you're looking for a high-quality energy stock to buy now, Freehold has recently become cheaper. At a bargain price, FRU pays a safe and attractive dividend and has impressive long-term potential.

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