Utility Stocks During a Recession Are Safer Havens: 2 Stocks for Your TFSA

Description

Investing within a tax-free saving account (TFSA) is a great way to build wealth. The first steps involve saving money and creating a TFSA account. As years pass, prudent investing will produce capital that can buy a trip around the world, pay for a home reno, or live off during retirement as non-taxable income.

Utility stocks have fallen out of favour, but are typically good investments in the long run. Here are two completely different strategies.

First up is **Tidewater Midstream and Infrastructure Ltd.** (TSX:TWM), which caught my eye on the news of a massive shareholder handover.

It can be difficult to get analyst content on small cap stocks, and Tidewater is no different. It's therefore a good thing that Fool contributor Kay Ng already dug down a rabbit hole to find out more about this $487 million market cap utility company that operates in the natural gas liquids energy business.

With an enterprise value of $729 million and EBITDA of $51 million for the last 12 months, the ratio gives 14, which is within a range that gets value investors excited. Tidewater forecasts this low ratio will *continue* to beat peer-average (read: competitors) according to the September corporate presentation notes.

But wait: there's more news!

Earlier this week, a Toronto-based private equity firm, Birch Hill Equity Partners Management Inc., announced that it would purchase $63 million in Tidewater shares off of a multi-national energy giant **AltaGas Ltd**. This bulk trade is said to cost Birch Hill $1.45 per share and is expected to close on September 28, 2018.

Did I mention that Birch Hill is already in for 9.1% of Tidewater's common shares? The new purchase will take Birch Hill's stake to 22% of the company (read: confidence).

Tidewater's share price is the range of between a buck + a quarter and a buck + fifty cents. In three out of the last 12 quarters, the earnings have been zero, but otherwise positive. Will the tide (*ahem*) turn for Tidewater? There's enough upside to keep Tidewater on your watch list.

Buy a basket with a big yield

A second utility investing strategy is to buy a basket of recognizable utility companies that pay dividends. Live off the income if you can! BMO offers an exchanged-traded fund (ETF) that is worth a look. Compared to many high yielding ETFs, the **BMO Covered Call Utilities ETF** (TSX:ZWU) gets an extra income lift by using *options trading.* The yield comes mostly from dividends paid from the underlying holdings. Selling covered calls generates a bit more.

If you're like me and don't have the time or inclination to learn to trade options successfully, then this is a brilliant way to get in on options action. Leave it to the BMO experts who strategically sell bits of the assets within the $700 million portfolio.

Holding ZWU and doing absolutely nothing would double your initial investment in 11 years from the 6.5% yield alone (assuming the yield doesn't change). That would be a tax-free doubling if held in an TFSA.

Takeaway

Tidewater trades below the 2015 initial public offering of $2.20 per share. It is a higher risk compared to the ZWU ETF, but also offers a higher potential reward. Either of these utility strategies could make a TFSA swell over time.

CATEGORY

1. Energy Stocks
2. Investing
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TICKERS GLOBAL

1. TSX:TWM (Tidewater Midstream and Infrastructure Ltd.)
2. TSX:ZWU (Bmo Covered Call Utilities ETF)

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