2 High-Yield Dividend Stocks for the Savvy TFSA Investor

Description

It takes courage to buy stocks that are out of favour and in cyclical industries that are experiencing lows.

But here I have two high-yield dividend stocks. Energy stocks have been out of favour for a long time now and have been seeing declining stock prices, despite very strong financial results, thereby creating a big opportunity.

Peyto Exploration and Development Corp. (TSX:PEY)

With the new LNG project by LNG Canada being approved, natural gas production companies like Peyto have received life-changing news. Now they just have to hold out until such time that these projects come online, natural gas demand picks up, and the pricing differential between Canadian gas and U.S. gas is eliminated.

In the meantime, we have a natural gas situation that is also looking better in the short term.

With natural gas storage below five-year averages, winter upon us, and improving sentiment, we may see higher natural gas prices sooner than we think.

With 89% of its production being natural gas, Peyto is very well positioned to reap the rewards of strengthening natural gas prices.

Peyto just posted its 18th consecutive year of profits, with a 55% increase in EPS and a 12% increase in funds from operations. Peyto stock is down 60% in the last five years, but recently, it has seen strength as these developments have taken place. The stock is up 16% from its September lows, with a dividend yield of 6.05%.

Cash flow from operations increased 10% in 2017 and declined 4% in the first six months of 2018, and funds from operations in the first six months of 2018 covered both capital expenditures and dividend payments by $155 million, as management has adjusted capital spending in this low-price environment.

Returns continue to be industry leading, as cash costs remain top tier and the company's realized price of $3.20 per million cubic feet of natural gas was 184% higher than the AECO daily price average.

Freehold Royalties (TSX:FRU)

The ever-widening differential between the Canadian oil price and WTI pricing has been a thorn in Canadian energy stocks' sides. And Freehold stock is no different, despite its royalty model that insulates it from many of the risks of the sector.

The stock has still taken a 42% nosedive in the last year and it now has a 6.05% yield. However, the company’s cash flows show that this price action is not justified.

Operating cash flow increased 8% in the last quarter, and the company’s free cash flow yield was above 20%.

Freehold has a well-diversified asset base, a low-risk business model with relatively predictable cash flows, a strong balance sheet, a low payout ratio, and a dividend that has been increasing nicely in recent years.

Furthermore, the improving regulatory landscape that should come with the recent LNG project approval should improve the differential, as should increasing rail shipments and pipeline expansions that are in the works.

All this makes it a great time to buy into Freehold stock.

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