2 Bargain High-Yield Canadian Energy Stocks for Your TFSA

Description

Canadian energy stocks are still in the doghouse. But that's not all bad news, as this weakness continues to uncover Canadian energy stocks that are trading at bargain levels and at elevated dividend yields.

Here are two that are both solid additions to your TFSA.

Freehold Royalties (TSX:FRU)

While Freehold is not a very well known Canadian energy stock, I believe it is a hidden gem in the space.

With a highly diversified list of exposure, this royalty model means that Freehold will be more sheltered from Canadian oil discounts than other Canadian energy stocks.

The royalty model also means less financial risk, stemming from the fact that operating costs are covered by the producers and Freehold receives royalties based only on their top-line results.

Freehold stock currently has a dividend yield of 6.61%, as it has been hit hard in the last year, down 40%. But is this justified?

Freehold has a low-risk business model with relatively predictable cash flows and a strong balance sheet.

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

And with a payout ratio of only 55%, investors have enjoyed dividend increases in recent times, as the company's free cash flow generation has increased dramatically in accordance with the increase in oil prices.

Dividend payments bottomed in 2016 at $0.54 per share and have subsequently been rising since then to $0.58 in 2017 and, according to management's forecast, $0.63 this year for an 8.6% increase in the dividend.

Freehold reports next week

Suncor Energy (TSX:SU)(NYSE:SU)

Suncor stock is a Canadian energy name that is actually pretty immune to the ills of Canadian oil pricing. This is due to the fact that it has an integrated business model, which means exposure to upstream (production) as well as downstream (refining and processing) services.

This effectively means that a large percentage of its oil production goes through its own refineries, which are exposed to Brent pricing.

On a company-specific basis, Suncor has a strong history of consistent shareholder value creation. In the last six years, the company has grown its dividends per share by a compound annual growth rate (CAGR) of 20%.

From 2012 to 2016, production increased at a CAGR of 6%, and from 2016 to 2020, management expects it to grow at a CAGR of 9%.

Suncor has spent the last few years investing in its business with the goal of increasing efficiencies and driving down costs to be increasingly profitable at lower oil prices as well as ensuring it has a good inventory of production growth opportunities.

The stock currently has a dividend yield of 3.21% and after the company raised its dividend by 12.5% earlier this year.

Suncor stock is down almost 20% from highs of this summer, and this represents a great opportunity to get into this highly profitable company, which has consistently generated shareholder value throughout its history.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2018/11/07
Author
karenjennifer