4 Reasons to Consider This Beaten-Up Dividend Stock

Description

Do you want to fill your TFSA with stocks that are on the cusp of breaking out and providing exceptional capital gains? Do you want to uncover undervalued stocks that are trading at unwarranted discounts?

It is not often that we encounter a beaten-up stock that truly does not warrant the beating. It is also hard to distinguish which stocks are actually deserving of this and which are being unjustly punished. But this is where successful investors can differentiate themselves. This is when stock pickers can really make the difference in the quest to achieve above-average, market-beating returns.

It is not an easy task, but we can do it if we focus on fundamentals above market sentiment.

Let's take a look at a beaten-up stock that I think you should consider for your TFSA.

Here are the four reasons to consider **Freehold Royalties** (TSX:FRU)

Lower-risk royalty model

With limited exposure to capital, operating costs, and other costs, Freehold's royalty model is an attractive one for investors who would like exposure to the oil and gas industry without taking on as much risk.

Dividends galore

Freehold's dividend yield currently stands at 7.43%. It is easily covered by cash flows, with a 65% payout ratio at current prices.

These dividend payments also have high visibility, as the company's low-risk business model, its attractive payout ratio, and its healthy balance sheet can attest.

Oil prices rallying

Oil prices are rallying big since 2018 lows, and although we continue to see consistently strong results out of Freehold, its stock has not done much at all and remains depressed.

West Texas Intermediate oil has rallied 38% from last year’s lows; although it is still down relative to a year ago, the stock does not reflect this strength.

Western Canadian Select oil has rallied almost 300% from 2018 lows.

To get a sense of the oil price leverage that Freehold has, a change in the oil price from $50 to $60 increases the company’s cash flow by more than 30%.

Cash flow strong

Free cash flow of $45 million was generated in 2018, and with the upcoming years expected to continue to see free cash flows accumulate, I think we can reasonably expect Freehold to either increase its dividend again or make additional acquisitions.

Lastly, interest rates do not appear to be heading higher anytime soon, which is a big positive for Freehold as a high-yield dividend-paying stock.

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