TFSA Investors: 2 Undervalued, Cash-Flow Rich Dividend Stocks to Buy Today

Description

TFSA investors know all too well the importance of cash flow. Cash in the form of tax-free dividends and capital gains drive TFSA value-creation.

At this time, we can turn to energy stocks for our cash needs, as many of these undervalued stocks provide solid dividend income as well as capital gains potential.

With West Texas Intermediate (WTI) oil currently trading at $63.47 (up 49% from December 2018 lows) at writing, we have reason to be optimistic again about energy stocks.

At these prices, many energy companies are racking in the profits and leaving the doldrums behind.

As far as Canadian oil prices go, the story is just as bullish.

With the Western Canadian Select (WCS) oil price trading at $54.64 (up more than 400% from 2018 lows), we have seen a sharp reversal of the heavy discounts of 2018.

The following two energy dividend stocks are prime candidates for your TFSA for their strong free cash flow generation and their undervalued stock prices.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ)

Canadian Natural has a strong history of dividend increases, and with another 12% dividend increase in its most recent quarter, CNQ stock's dividend yield now stands at 3.77%.

And it is a dividend that is safe and stable, with Canadian Natural's stable operations underpinning its strong and growing cash flow and its healthy and flexible balance sheet.

In the fourth quarter 2018, CNQ generated $1.2 billion in cash flow ($1.02 per share) despite the Canadian oil differential widening dramatically during the quarter.

Costs continued to fall, and the company continues to return cash to shareholders as a reflection of management's confidence in its future — testament to the company's resiliency and its quality.

Freehold Royalties Ltd. (TSX:FRU)

Energy stock Freehold Royalties is one that gives shareholders both a high dividend yield as well as the potential for big capital gains.

Freehold's dividend yield currently stands at 6.58%, and it's a dividend that 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 to.

Although we continue to see consistently strong results out of Freehold, its stock remains depressed, providing investors with a solid opportunity.

In closing

Finally, I would like to say that these dividend stocks will likely get a big boost upon the release of their first quarter results, which are coming in the first week of May, as these results will show continued strong cash flow growth given the rally in oil prices this year.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:FRU (Freehold Royalties Ltd.)

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