



TFSA Investors: This High-Yield Dividend Stock Is Trading at a +50% Discount

Description

The Tax-Free Savings Account, or TFSA, is a great place to add undervalued stocks that are trading at huge discounts, because when these stocks finally reflect their true value, the capital gains that you will make will be 100% tax-free. Those are the best kinds of capital gains out there. Looking for these opportunities today will mean big rewards for tomorrow.

The Canadian energy sector has long been a dog, disappointing investors and energy executives alike. While a lot of money has been lost in the last few years, today, we are beginning to see the light at the end of the tunnel, with momentum building, as many developments are slowly working to breathe life back into the sector and send energy stocks soaring.

It comes as no surprise that the [high-yield](#) dividend stock for TFSA investors that I refer to in the title of this article is an [energy stock](#). While many energy stocks are trading at huge discounts and have pretty juicy yields, I am singling this one out. It not only possesses these things, but it is also a relatively low-risk, high-yield stock.

Without further ado, let me present to you **Freehold Royalties** ([TSX:FRU](#)), a dividend-paying oil and gas company with assets predominantly in Western Canada, and with a focus on acquiring and managing royalties. The royalty model enables the company to provide investors with lower-risk income, and with a portfolio of 6.4 million gross acres of royalty lands in Canada, Freehold has amassed a highly diversified revenue source that includes many different oil and gas plays as well as diversified exposure to oil, natural gas, and natural gas liquids.

Here are three factors that make Freehold a great buy for TFSA investors today.

Rising oil and gas prices

Oil prices have recovered nicely year to date, with Western Canadian Select (WCS) trading 30% higher than the beginning of the year, and West Texas Intermediate (WTI) prices trading 33.8% higher. At the same time, Freehold Royalties stock has risen only 3%. It's not really that the stock price performance has to perfectly follow the price of oil, but this disconnect is really something extreme. It

says to me that there is really a hate on energy stocks in general and that this sector is being unreasonably hit hard by negative sentiment.

As for natural gas, clearly this industry is in crisis mode, with Canadian natural gas prices hitting rock-bottom levels. Yet Freehold is still generating crazy amounts of cash flow. Imagine what would happen if natural gas prices start to strengthen, too.

Visible, growing cash flow

Looking at Freehold's cash flow performance and company-specific fundamentals, it looks clear to me that this negative sentiment on this stock is not warranted. Freehold generated \$129 million in free cash flow in 2018, 29% higher than five years ago, its balance sheet is very high quality, with minimal debt, and it has a low payout ratio of just over 60%.

Low risk, high yield

Freehold is currently paying shareholders a 7.4% dividend yield for their investment. The company's royalty revenue comes straight off the top line of its royalty lands, and there is no operating cost commitments or exploration risk. This makes Freehold a pretty safe investment in the energy space. It is a low-risk, undervalued, high-yield stock that will surely break out as the energy sector here in Canada recovers, making investors a pretty solid +50% return, plus the annual dividend yield.

Finally, against this backdrop, we also have the fact that Freehold shares are trading at pretty depressed valuations like a price-to-cash flow multiple of eight times and a price-to-book multiple of only 1.3 times.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. Editor's Choice

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1. TSX:FRU (Freehold Royalties Ltd.)

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