How TFSA Investors Can Build Massive Wealth

Description

Building massive wealth in your TFSA is not an easy goal, just like it is not an original goal. I mean, we all want to build the type of wealth that will leave us free to make the choices that we most desire and to live life the way we want to live it, whether that means retiring early or having more time to pursue your true passions.

One way to do this is simple. It's not easy to do, but it's simple. Do not follow the crowd. Buy great companies at great prices and have the strength and the will to be confident in your beliefs, despite what the crowd is saying.

If this sounds like contrarian investing, that's because it kind of is. Investing with this attitude can ensure that we snatch up great companies at low valuations, getting a deal on your purchase just as you would want a deal on your next car purchase or phone purchase. These things add up, and slowly, they add to your wealth.

The Canadian oil and gas sector is one sector that is definitely down and out right now. It would not be an exaggeration if I said that many investors have counted it out and will not even consider it as an option. But herein lies the opportunity for TFSA investors. We now have a number of high-quality energy stocks that are trading at extremely attractive valuations, despite the fact that they are generating strong results and showing strong company-specific fundamentals.

Cenovus Energy cleans up its act: dividend increase coming?

Cenovus Energy (TSX:CVE)(NYSE:CVE) has embarked on an aggressive journey to deleverage and generate better shareholder returns. Having reached its preliminary debt-reduction target in June and quickly closing in on its $5 billion debt target, Cenovus management can now consider what it will do with its free cash flow going forward. A shift to returning capital to shareholders is warranted.

After dramatically cutting its dividend in 2015 and 2016, Cenovus's dividend yield has hovered in the 1.5% range — low compared to other energy stocks that are generating similar levels of cash flow. In 2019, free cash flow is expected to be almost $700 million — more than triple what it was in 2016.

Cenovus has seen strong cash flows coming through in the last five years — in the good years but also in the not-so-good years. With a reserve life index of 40 years, 2019 expected cash flow from operations of over $4 billion, and operating costs plunging, Cenovus should come out of the penalty box sooner or later.

AltaGas brings on the stability

AltaGas (TSX:ALA) has also struggled with unsustainable debt levels and dividend cuts, placing this energy stock in the penalty box as well. But AltaGas has risen from the ashes. AltaGas's stock price has already surged 42% so far in 2019, and it shows no signs of stopping. Its dividend yield is 4.84%, and the dividend is well covered by cash flow, with a payout ratio of 46% of cash flow.

Strong cash flows plus a successful asset sales program will both work to continue to reduce the company's debt burden as well as fund its growth plans. In fact, management expects to pay down $3 billion of debt in 2019 and end the year with a net-debt-to-EBITDA ratio of less than 5.5 times, much lower than recent history, effectively returning the company to stability and predictability.

Foolish bottom line

Cenovus keeps churning out incredible levels of cash flow while continuously improving its operational performance and its financial standing. AltaGas has been volatile recently, but at the end of the day, it is a defensive utility/infrastructure play that benefits from predictable and stable earnings and cash flow.

Don't believe the crowd. These stocks are too cheap to ignore, and their value will come to light eventually.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:CVE (Cenovus Energy Inc.)

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