TFSA Investors: Double Your Investment Tax Free With These Stocks

Description

The oil and gas industry has been under pressure. Over the past year, the TSX Equal Weight Oil & Gas Index has lost 18% of its value. In comparison, the S&P/TSX Composite index has gained 7.33% over the same period.

There are several factors that have impacted the sector. Volatile economic conditions, a Western Canada pipeline glut, production curtailments and supply/demand imbalance are but a few of the headwinds facing the sector. It has led to a highly volatile price environment and multi-year lows.

Opportunistic investors will recognize this as a buying opportunity. This is especially true of stocks with high exposure to natural gas and natural gas liquids (NGLs). The price of natural gas and NGLs have effectively fallen off a cliff and have touched near-decade lows.

However, sentiment is slowly beginning to shift, and the price has established a short uptrend. Now might be the perfect time to invest in high-quality companies that are trading at cheap valuations, such as **Encana** (TSX:ECA)(NYSE:ECA) and **NuVista Energy** (TSX:NVA).

What's the best part about holding these stocks in your Tax-Free Savings Account (TFSA)? You can enjoy big capital gains tax free.

A cheap stock with impressive growth rates

After last week's Saudi Aramco attack, the world's largest producer of petroleum, analysts where hard at work identifying which Canada companies would best be positioned to benefit. Which stock consistently made the list? Encana.

Encana has an attractive growth profile and one that is not yet baked into its stock price. At a negative ratio of 15.2, Encana's future-growth-value-to-market-value ratio (FGV/MV) is one of the lowest in the industry. The FGV/MV ratio represents "the proportion of the market value of the company that is made up of future growth expectations rather than the actual profit generated." The lower the number, the better.

Not only is the market significantly undervaluing future potential, it is also cheap based on existing fundamentals. Its current price-to-earnings (P/E) ratio of 6.67 is almost half that of its historical average of 12.69 times earnings. It hasn't been this cheap since the oil bear market in 2015 and the financial crisis before that.

Both times, it recovered, and the share price more than doubled. Similar gains are entirely possible this time around.

A natural gas stock bouncing off lows

NuVista Energy has already rebounded in a big way. Over the past month, NuVista's stock price has shot up by 71%, and it has been one of the best-performing stocks in the industry. Worried you missed out? Don't be; the stock is still cheap.

The company is trading at a cheap 6.89 times earnings, at more than half (0.42) book value, and at only 2.16 times cash flow. This is much lower than the company's historical averages of 17.70 (P/E), 1.35 (P/B), and 7.54 (P/CF).

As we've seen this past year, the company is prone to significant volatility. At one point, NuVista hit an all-time low of $1.39 per share, and its outlook was dire, despite solid fundamentals. However, sentiment has turned positive, and the company still has significant upside potential. At this time last year, the company was trading at upwards of $7.75 per share.

Analysts agree with the company's potential. The 15 analysts who cover the company rate it a buy, and they have a one-year average price target of $5.14 per share. This implies 92% upside from today's price of $2.67 per share.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NVA (NuVista Energy Ltd.)

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