



A Great Dividend Stock to Hold in Your TFSA for Years

Description

Setting a portion of your income aside for your retirement is a key part of a sound financial plan. Today, Canadian investors can deposit a significant amount of their earnings into a TFSA. The current annual contribution limit is \$6,000, and the cumulative room available is \$63,500.

So, whether you are aiming to catch up on your TFSA contributions or just find a great dividend stock for your 2019 contribution, consider **North American Palladium** (TSX:PDL), a palladium producer with growing free cash flow that management intends to return to its shareholders in the form of its regular dividend and special dividends.

What is palladium?

Palladium is a shiny, silvery metal that is used in many types of manufacturing processes, especially for electronics and industrial products. Palladium is used in exhaust systems in cars, where it is the primary catalyst in catalytic converters, an exhaust control device that reduces toxic gases and pollutants. The emissions regulations are getting stricter, and auto makers have accordingly been increasing their usage of palladium, which helps them meet these requirements. Simply put, palladium helps vehicles run cleaner.

Beyond this age-old application, palladium is also being used in many new technologies, such as fuel cell engines. [Fuel cell automobiles are being commercially advanced](#) by many of the big auto manufacturers, and countries around the world are using these clean engines to power their buses, trains, and even marine vehicles. Palladium is being used in fuel cells as the catalyst to generate an efficient fuel cell reaction and get the initial boost to get it going. The fuel cell industry is expected to grow at a compound annual growth rate of almost 10% and to reach well over \$500 billion by 2023.

According to **Ballard Power Systems's** CEO Randy MacEwen, the company is "seeing early signs of internal combustion engine disruption in heavy and medium duty motive applications, including in bus, commercial truck, rail, and marine."

Palladium has soared in the last five years and has continued to soar in the last year, rising 126%

versus five years ago and 57.5% versus one year ago. The usual suspects are to thank here: a lack of supply and booming demand, which have worked together to create this dynamic.

We have discussed the demand drivers, but the supply drivers look just as attractive. Currently, the market for palladium is in deficit territory — a situation which is expected to persist for the next few years. This at a time of growing demand, has resulted in the strength of palladium prices.

Why is North American Palladium stock a great buy for your TFSA?

For its part, North American Palladium's stock has rallied approximately 80% in 2019, as investors have become increasingly excited about this "boring" commodity stock. Looking closely at the company's financials and outlook, I can show you why this stock is still a great dividend stock to buy for your TFSA, even a gem.

Tonnes of cash flow means tonnes of dividends and special dividends

In 2018, the company generated free cash flow of \$53 million as palladium prices skyrocketed, and this free cash flow is [being returned to shareholders at a feverish pace](#). This year, including regular and special dividends that will be paid, the company's dividend yield is north of 6%.

North American Palladium has demonstrated a commitment to returning cash to shareholders through years of dividend payments as well as consistent special dividend payments. We can rest assured that this will continue given the strength of the palladium market and of the company's financials.

Strong balance sheet and high returns

The company has little to no debt and is currently generating a return on equity of more than 20%. These returns are accompanied by the ability for the company to safely focus more on exploration to add more ounces and extend the life of their mine, thereby creating more value for shareholders.

Foolish final thoughts

North American Palladium stock is a great dividend stock today for strong regular dividend income that is backed by an abundance of free cash flow. The palladium market is experiencing a very favourable supply/demand dynamic, and this coupled with the company's excellent operational and capital performance makes it a great buy for your TFSA today.

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Date

2025/07/23

Date Created

2019/10/22

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