



## TFSA Investors: This Royalty Stock Has Low Risk and Could Provide a 50% Return in 2020. Interested?

### Description

Usually, investors aren't talking about 50% returns or anywhere near it, unless major risk-taking is involved. But what if I told you that I have a stock pick for you to consider that has very little risk and a high likelihood of investment success? I know it sounds impossible, but I truly believe that **Prairiesky Royalty** ([TSX:PSK](#)) is just about the perfect business model to provide a steady dividend yield with the promise of being able to sleep at night.

So, how does it work? Well, I must tell you that Prairiesky is connected to the oil and gas business, which is fast becoming a toxic industry for investors because of its anemic returns. In fact, even industry stalwart **Suncor** is having a hard time churning profits with the price of Canadian crude at deep discounts to the more popular West Texas crude variety.

Once you get past the skin-crawling sensation of not wanting to be anywhere near the oil patch, you will see that Prairiesky essentially owns land it leases out to oil producers. The company's business model revolves around acquiring and managing royalty lands to generate significant free cash flow through third-party oil and gas investments at relatively low risk. This means oil and gas producers invest in the land to generate oil production. Prairiesky does not put a dime into the land other than buying it.

With approximately eight million acres of oil and gas production lands and an additional eight million acres of other royalty lands, PrairieSky Royalty offers the largest independently owned portfolio of royalty lands in Canada.

The fact that it leases its land out for the purposes of producing oil and gas has one other major advantage. All the potential environmental liability rests with the producer, not with Prairiesky. This is a big plus, because essentially this is an investment that provides exposure to the commodity price without the baggage that comes with a traditional oil and gas producer. One oil spill could lead to a multi-billion-dollar class-action lawsuit that is draining on a company's resources.

## Management is aligned with shareholders

Prairiesky has a market cap of about \$3 billion, of which approximately \$80 million is owned by the company's management and directors. That equates to about 3% in ownership. While this may not sound very high, the general rule of thumb is that management should typically own at least 1-2% of shares outstanding.

Given Prairiesky management's ownership levels, I would conclude that management incentives are nicely aligned with shareholders in that they both want to maximize the value of their ownership stake.

## Returns to shareholders

Speaking of maximizing returns to shareholders, the company has returned \$987 million in dividends and \$130 million in share buybacks to shareholders since its IPO in 2013. In other words, the company has already returned \$1.2 billion of the current market value of \$3 billion to shareholders. In investment language, this means that a good chunk of the investor "risk" is off the table, since capital has already been returned to them through good corporate performance.

This level of return of capital is extremely healthy, and the company's free cash flow yield is greater than the current dividend yield of 6%, which means that it is producing enough cash to cover dividends. This leads me to the conclusion that the dividend is safe, and at 6%, it is phenomenally juicy at a low-risk point.

## What could go wrong?

Obviously, nothing in life is guaranteed, and it is not a surprise that oil and gas producers have had a rough ride over the past few years. It is also not a surprise that Prairisky's stock price has come off its all-time high of \$35 per share reached in 2017 and is now trading at a much more modest \$13 per share.

The share price has essentially tracked the oil and gas industry's investment into its leased lands, which is a little discouraging, but there are plenty of catalysts for future growth, including the use of new drilling technologies to drive down the cost of production.

## Foolish bottom line

The bottom line is that Prairiesky is cash flow positive with no capital requirements to maintain the current free cash flow generation. That means the company is set up to succeed further if crude oil prices can go beyond \$60 per barrel. Until then, smart investors will be happy to collect a 6% monster dividend as they wait for oil prices to push higher.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:PSK (PrairieSky Royalty Ltd.)
3. TSX:SU (Suncor Energy Inc.)

## PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

## Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

## Tags

1. Editor's Choice

## Date

2025/08/17

## Date Created

2019/11/05

## Author

rahimbhayani

default watermark

default watermark