TFSA Investors: Why This 9% Yielding Oil Stock Is a Top Stock to Buy in 2020

Description

As TFSA investors, we're always looking for a way to maximize our TFSA account and our tax savings. This means contributing as close to the maximum allowable as we can, as well as reserving this account for the higher-taxed interest-bearing bonds and for the higher yielding dividend stocks.

Let's move on to uncover a top stock to buy for your TFSA in 2020. This is an oil and gas stock that provides its shareholders with an 8.94% dividend yield, and it's a stock that's trading at massively undervalued levels because of its industry.

We're all familiar with the problems the Canadian oil and gas industry has faced over the last few years, and we also know that things appear to be turning with the Trans Mountain expansion; other, smaller pipeline expansions; and increasing crude by rail shipments and the easing of production curtailments.

Without further ado, let me present to you **Freehold Royalties Inc.** (TSX:FRU) stock and tell you why I believe this is a top stock to buy for your TFSA in 2020.

Freehold's generous and safe dividend gives ample amounts of tax-free income for TFSA holders

At this time, Freehold has a dividend yield of an astonishing 8.94%. While this type of dividend yield usually goes hand in hand with high-risk companies that ultimately place an investor's capital at great risk, this is not the case with Freehold.

As Freehold generates its cash flow from long-life royalty assets that have no associated capital investment, the risk in the company's royalty revenue is very low. Indeed, it lies mostly with oil and gas prices and not operationally, which means a lower risk profile than what typically comes with oil and gas stocks.

Looking ahead, Freehold is acquiring in this depressed environment and has spent $47 million in royalty acquisitions as of November 2019.

This habit of acquiring at a time of depressed valuations is a smart way of making money in the long term, and I give Freehold credit for being able to do so — and for pulling the trigger.

Buying $63,500 worth of Freehold stock in your TFSA would generate $5676.90 of annual tax-free income. It's a low-risk income, as the company more than covers its dividend payment.

In fact, the company is looking to possibly increase the dividend in 2020. This is an opportunity that doesn't come around often, and when it does, it's wise to act on it.

Freehold stock is severely undervalued — which means tons of upside

Freehold is not a high-growth company. It's a relatively safe and reliable company in the oil and gas sector — one that provides investors with not only a very generous dividend, but also one that provides investors with tons of upside as the cycle turns and valuation levels normalize.

Currently trading at a steep discount to its royalty peer group, Freehold can be expected to benefit from a closing of this valuation gap as well as from increasing valuations for the sector overall.

Foolish bottom line

Freehold Royalties stock is currently providing TFSA investors with a great opportunity to get a piece of relatively secure cash flows at a bargain price. Trading below its peer group of oil and gas and resource royalty companies, Freehold has plenty of upside to be had.

This, coupled with its dividend yield of close to 9%, makes Freehold stock a great addition to your TFSA in 2020.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:FRU (Freehold Royalties Ltd.)

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