



TFSA Investors: A Tax-Free 6% Yield and Big Upside Potential

Description

For quite some time now, **Whitecap Resources Inc.** ([TSX:WCP](#)) has been my favourite way to play a recovery in the severely beaten-up Canadian oil and gas space and is a great stock to hold in your TFSA. While I have a smattering of other oil and gas companies, this stock is my largest holding in the sector by far and is almost one of my largest holdings overall, thanks in no small part to a greater than 33% increase in the stock over the past few months.

Every time I look at this company, I am impressed by a number of factors. The dividend, of course, is still fantastic. The yield at the time of this writing sits at well [over 6%](#) and that yield is paid out on a monthly basis and is tax-free in your TFSA. This has also been helped by the fact that the dividend has been increased over the past couple of years.

As a fairly avid contrarian, I was and still am impressed by the potential for upside in the name. That's right, even after the impressive run over the past month or so, there is likely a lot of upside for this stock and the sector as a whole. While investors still hate Western Canadian oil, they hate it less than they did for the majority of 2019. Intrepid investors are coming back, but they have not yet flocked in droves.

The company's approach to its balance sheet is probably my favourite development. Take a look at the January 2020 corporate presentation on its website to see what I mean.

Prominently presented are its approach to debt repayment and share buybacks. The people running the company get it. People want stronger, financially stable companies today. Investors have felt the burn of the cowboy days of the oil bubble and they want businesses that are well-run and profitable.

The new and improved oil companies of Western Canada have felt the burn of tough times and have emerged more responsible and efficient than in their giddier, younger selves.

The thing is, though, Whitecap is not under as much pressure as some other companies are in terms of paying down debt. They have a little more debt than I would like, to be certain, but the rates at which they have borrowed are pretty low. When you are making a ton of cash using some leverage can be a great way to take advantage of a low-interest-rate environment. That being said, I am happy to see this company focusing on repayment.

The fact that share buy-backs are a priority is also encouraging. Putting their cash to work buying back their depressingly low shares is one of the best, most tax-efficient uses of their capital at the moment. It's also fantastic for existing shareholders who are tired of being diluted by many companies in the space.

The bottom line

I have stated many times in the past year that these low oil prices are an opportunity that should not be missed. Out of all the companies out there, I believe that Whitecap is one of the best. It has strong free funds flows, a balance sheet that continues to improve, and fantastic assets.

Of course, always approach commodity companies with caution. As much as I think Whitecap is one of the best in the sector, it should not be an income replacement for people looking to collect steady, growing dividend cheques. Commodities are not for the faint of heart.

That being said, the valuation is compelling, the management is making good decisions, and the existing yield provides comfort while you [wait for the stock](#) to move. If you hold it in a TFSA those dividends and gains are tax-free. If you want to buy a stock with good upside potential that pays you while you wait, Whitecap might be the one for you.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:WCP (Whitecap Resources Inc.)

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Author

krisknutson

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