TFSA Investors: $10,000 in this Dividend Stock Will Give You $773 in Tax-Free Income Every Year

Description

The global energy industry was hit by a double whammy in 2020 with the pandemic as well a massive decrease in oil prices. As countries around the world have started easing lockdown restrictions, oil and commodity prices have started moving up again. In case energy prices continue to rebound, adding quality energy stocks to your Tax-Free Savings Account (TFSA) may seem like a good investment strategy right now.

The TFSA is a Canadian registered account where withdrawals in the form of dividend stocks or capital gains are exempt from Canada Revenue Agency taxes. This makes the TFSA an ideal account to hold dividend stocks and benefit from tax-free gains. Let's take a look at why the below company is a good bet for TFSA holders.

This energy stock on the TSX yields 7.7%

There have been a few companies that have held their own during one of the worst quarters ever experienced in business. **Keyera Corp** (TSX:KEY) is one such company integrated Canadian-based pipeline company that predominantly operates in the natural gas and natural gas liquids space.

The company announced its results for the second quarter recently and it reported an EBITDA of $182 million (down from $249 million in Q2 of 2019) while distributable cash flow increased to $158 million from $144 million in 2019. Net earnings were $18 million.

Keyera operates in three segments, with two of them showing resiliencies amid the pandemic. The gathering and processing segment had an operating margin of $69 million ($70 million in 2019). The liquids infrastructure segment generated $100 million in operating margin ($93 million in 2019) while the marketing segment reported $54 million in margins ($115 million in 2019).

However, Keyera expected the marketing segment to “generate realized margin between $300 million and $340 million in 2020, exceeding previous guidance of $270 million to $310 million.”

The company will also make a major push on its liquids infrastructure segment. “Our primary focus will be on our liquids infrastructure segment, which is demonstrated to be very resilient under the most challenging market conditions. These assets are generally critical for the basin, have high barriers to entry and typically involve strong counterparties with a greater ability to secure long-term take-or-pay contracts,” said President & Chief Commercial Officer Sean Setoguchi.

A dividend cut seems unlikely

The company has reduced its 2020 capital program by deferring its KAPS pipeline project by one year and discontinuing its dividend reinvestment program. The construction of the pipeline is expected to start in 2021 and be ready for service in 2023.

Keyera says that it has reduced its overall cost structure and expects the revised structure to generate between $45 million to $65 million of annual improvement in EBIT. These measures include plans of suspending operations at six gas plants, which is expected to increase plant utilization in the south region from lower than 50% to approximately 70% by the end of 2021.

The company also has over $200 million of liquid cash and a $1.5 billion untouched credit facility. The company’s forward dividend yield is 7.73%. The year-to-date dividend payout is 51%.

That means an investment of $10,000 in Keyera today will earn you $773 in annual dividends. Further, analysts have given the stock a target price of $27.63, a 14% upside to its current price. After accounting for its juicy dividends, the stock can gain over 20% in the next year.

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