2 Perfect TFSA Stocks With Wide Economic Moats

Description

It's the beginning of 2015, and that means that you now have an additional $5,500 of contribution room for your tax-free savings account (on top of any unused contribution room accumulated in previous years).

TFSAs are a great way to build wealth tax-free, and unlike RRSPs, your holdings are not taxed upon withdrawal, meaning they are a great way to save for both short-term and long-term goals.

The big question is always what to invest in, and regardless of your goals, it is always wise to choose strong companies with wide economic moats. Not only can be sure your hard-earned money is safe, but these companies also experience less volatility, while offering traditionally strong returns.

So, what Canadian companies fit the bill? An economic moat refers to any durable competitive advantage that a company has, which allows it to earn above-average returns (the competitive advantage part) and maintain these returns over time (the durable part).

Having said that, here's why **CGI Group Inc.** (TSX:GIB.A)(NYSE:GIB), and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), belong in your TFSA.

Enbridge Inc. benefits from regulated rates of return

Enbridge has a wide economic moat, by virtue of the industry it operates in and its fundamental characteristics.

In the pipeline industry, revenues are largely derived from fee-based, or cost-of-service contracts. For a fee-based contract, the company receives a set fee per barrel of oil transported, and therefore revenues are dictated by volume. In a cost-of-service contract, the company will receive revenues equal to the cost of providing the service, plus a set return on top of this. For pipelines that are regulated, revenues are based on cost-of-service contracts, and therefore a company is guaranteed to outearn its cost of capital, providing an economic moat.

Enbridge benefits from both of these types of contracts, and therefore only has about 5% of its revenue exposed to commodity risk. Fortunately, since the vast majority of Enbridge's assets are regulated, it benefits greatly from cost-of-service arrangements.

In addition to stable returns, often underpinned by very long-term contracts, Enbridge also benefits from being a leader in the oil pipeline space, which provides it with key advantages due to the strong positioning of its assets. Enbridge runs the world's longest crude oil transportation, and transports 53% of U.S.-bound Canadian production, representing 2.5 million b/d of export.

Enbridge is also positioned in every major production growth region. It is in the surging Bakken shale play, and is already the dominant operator of feeder pipelines in Alberta's oil sands.

The fact that Enbridge is well positioned in all the major production growth areas means it lacks the same degree of dependence on messy political approvals that its peers are subject to. Enbridge can simply expand and extend pipelines with existing right of way.

With $44 billion of commercially secured growth projects through to 2018, Enbridge is the perfect wide-moat, growth-oriented stock for your TFSA.

CGI Group Inc. has excellent customer loyalty

Although CGI's economic moat arguably isn't as wide as Enbridge, it still belongs in your TFSA. The IT service provider has an economic moat based on strong client relationships, which allows the company to maintain its current revenues, as well as expand organically within its current client base by benefiting from the increasing vendor consolidation that is occurring within the IT services space.

Currently, CGI attracts most of its contracts (33%) from within the government sector. This is a unique sector, since it has extraordinary privacy and security concerns. The sensitive nature of the work within this sector, combined with CGI's stellar 95% on-time, on-budget record (compared to 50% for the rest of the industry), allows CGI to benefit from a contract renewal rate of 98% within this group.

This, combined with the fact that CGI has a long average contract duration of seven years (often with clients that have been with the company for over 20 years), ensures CGI's revenue stability.

CGI has also been growing successfully through acquisitions, which provides this stable TFSA stock with a strong growth profile. Its recent acquisition of Logica was a success, resulting in $400 million of annual synergies and EPS accretion. With $536 million in cash on its balance sheet, and $916 million in free cash flow, CGI is widely expected to make another acquisition in 2015, which should boost growth even further.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:GIB (CGI Group Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:GIB.A (CGI)

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Author
amancini