Want Income? 2 Dividend Stocks for Your TFSA

Description

If you still haven't contributed to your tax-free savings account (TFSA) this year, you really should do that as soon as possible. Every moment that passes, you lose the advantage of compounding your savings tax free.

If you're at least 18 years old and have a social insurance number, you can open a TFSA account. The annual contribution limits (assuming you have never contributed to a TFSA) since the program started in 2009 are listed below.

Years	Annual Contribution Limit
2009 – 2012	$5,000
2013 – 2014	$5,500
2015	$10,000
2016	$5,500
Total:	**$46,500**

Altagas Ltd. (TSX:ALA) and **Algonquin Power & Utilities Corp.** (TSX:AQN) are solid dividend stocks to hold in a TFSA because of their diversified businesses and the fact that they're inexpensive today.

Altagas

Altagas is an energy infrastructure company with diversified businesses in power, pipelines, and utilities. Its shares have been dragged down 36% from a 2014 high of $50 to the current $32 due to low commodity prices. However, Altagas's cash flow-generation power remains strong. In 2015 the company experienced 1% of cash flow-per-share growth.

About 40% of Altagas's earnings come from contracted power operations, 35% comes from utilities, and 25% comes from contracted midstream operations. Through 2020, Altagas has project plans for all of its business segments to grow and maintain a diversified business.

Altagas has increased its dividend for four consecutive years, and its annual payout equates to $1.98 per share. At $32.30 per share, it yields 6.1%. The fact that it pays a monthly dividend makes it a good income investment for the TFSA where you can withdraw from it–tax free–anytime.

Most importantly, the shares are discounted by 15-19% based on its normal multiple, which implies a fair value of $38-40.

Algonquin Power & Utilities

Algonquin owns and operates a diversified portfolio of utilities in North America including assets in renewable power and a U.S. distribution utility. Last year they each contributed 50% of earnings. The strong U.S. dollar benefits Algonquin as it generated about 80% of its earnings in the U.S. last year.

At $10.90 per share, Algonquin only yields 4.6%, but where it lacks in yield, it should compensate with growth. Its cash flow per share is expected to grow 9% this year.

Its future growth will be driven by growth projects. It has identified $1.8 billion worth of renewable power development projects, about $800 million worth of investments in regulated electricity transmission, and $1 billion of investments for U.S. utility assets.

The shares are likely undervalued. On March 21 the company announced that executive officers bought $22.7 million worth of shares at prices per share close to the current price. Based on its normal multiple, the shares are in the fair-value range.

Algonquin has increased its dividend for five consecutive years. Shareholders can elect to receive Algonquin’s eligible dividends in the U.S. or Canadian dollars.

The company is at a good price, pays a decent dividend, and has growth potential. So, Algonquin makes a nice addition to the TFSA.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)

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Date
2025/09/18
Date Created
2016/03/31
Author

kayng