2 Safe Dividend Stocks for Your TFSA

Description

The tax-free savings account (TFSA) is a great place to invest for tax-free returns and income. However, it's really a double-edged sword. What you earn inside is tax free, but any losses you experience in it can't be reported to offset gains like you can in a non-registered account.

That's why it's essential not to take excessive risk in your TFSA. To prevent losses and to ensure satisfactory long-term returns, investors should consider inexpensive, A-grade companies for TFSAs.

National Bank of Canada (TSX:NA) and **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) are A-grade companies that are priced at reasonable valuations. Additionally, they pay yields of 4% and are perfect for if earning regular income.

National Bank of Canada

At about $45 per share, National Bank yields 4.8% and is fairly valued at a multiple of about 10. It thrived in the financial crisis of 2008 and 2009 by continuing to grow during that period. In its fiscal year 2008, its adjusted earnings per share (EPS) grew 2%. In 2009 its EPS grew 8%.

However, to be conservative, it froze its dividend from 2008 to 2010 but resumed its dividend growth in 2011 when the economy came out of the recession.

The bank has increased its dividend for six consecutive years. National Bank's dividend is 8% higher than it was a year ago. Its quarterly dividend per share of $0.54 equates to an annual payout of $2.16 per share, which is only 46% of its fiscal 2015 earnings. So, National Bank should be able to continue hiking its dividend.

Most importantly, National Bank is priced reasonably, so investors can consider buying it in a TFSA to get a 4.8%, growing income.

Manulife

At about $19 per share, Manulife yields 3.9% and is priced at a discount of roughly 19% based on its normal historical multiple. Actually, for most of 2014 and a part of 2015, it traded at an even higher multiple of 15, implying it could be discounted by about 32% when it's fully valued. This means there's a potential for a capital appreciation of 23-47% from current levels.

In the medium term, Manulife is expected to experience earnings growth of 8-12%. That's why the company was confident enough to raise its dividend by 8.8% early this year.

Manulife's quarterly dividend per share is 18.5 cents, which equates to an annual payout of $0.74 per share. And its payout ratio is 44% based on its 2015's earnings. Manulife has increased its dividend for two consecutive years, which hopefully marks the start of a long dividend-growth streak.

Conclusion

Both National Bank of Canada and Manulife are dividend-growth stocks with S&P credit ratings of A, indicating they have strong balance sheets. Most importantly, the companies are priced at reasonable valuations, which is the main factor for reasonable long-term returns. By buying them in a TFSA, investors can earn tax-free income with a yield of 3.9-4.8%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:NA (National Bank of Canada)

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