



1 of the Best Dividend-Growth Stocks for Your TFSA

Description

Investors can benefit greatly from investing in their Tax-Free Savings Accounts (TFSAs) because returns earned inside, including interests, dividends, and capital gains, are tax free, with the exception of withheld tax on foreign income.

However, there's a limit to how much we can contribute to our TFSAs. This year's limit is \$5,500. If, from prior years, you have unused contribution room or withdrawals, which you haven't put back, you can make bigger contributions. If you have never contributed to a TFSA, you can have as much as \$52,000 of contribution room.

While there's no tax event on capital gains (good news) in TFSAs, there's also no tax event on capital losses (bad news), which can be used to offset capital gains if they occurred in non-registered accounts. Because of this, it's important to focus on quality and value if you decide to invest in stocks in your TFSAs.



Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) has done well over the years, as its experienced management has widened the company's moat by expanding its portfolio of infrastructure assets across 15 countries.

The company's utility, energy, transport, and communications infrastructure operations generate stable cash flows with high margins and strong organic growth prospects, which support a growing distribution.

Brookfield Infrastructure's dividend

Since 2009, Brookfield Infrastructure's cash flow per unit has grown at a compound annual growth rate (CAGR) of 24%, while its distribution per unit has increased at a CAGR of 12%.

Going forward, management plans to continue paying out 60-70% of cash flow, so unitholders can get a nice distribution, while the company can reinvest into the business. This should translate to distribution per unit growth of 5-9% per year. Currently, Brookfield Infrastructure offers a yield of ~4%, which is U.S. dollar-denominated.

Despite a tiny percentage of the company's distribution having a U.S. withholding tax for foreign investors, the stock will still make a great holding in TFSA's because of its stable nature and growth prospects. In other words, most of its returns will come from capital appreciation and the rest of its distribution, which won't be taxed.

Investor takeaway

Although Brookfield Infrastructure is one of the best dividend-growth stocks to hold in TFSA's for the long run, the stock is, at best, fairly valued after its run-up from 2016.

So, cautious investors should look for a meaningful dip of at least 5-10% before starting a position. Interested investors can also look at Brookfield Infrastructure's yield as a guide. When it yields 4.5%, it'll be a decent entry point to start a position.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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