2 Cheap but Excellent Dividend Stocks to Buy for Your TFSA

Description

When deciding about buying dividend stocks for your Tax-Free Saving Account (TFSA), you should look for some qualities that top dividend stocks have in common.

In my research, I've found that companies with solid earning histories, manageable debt levels, and increasing free cash flow are the ones that reward their investors regularly. As you build up your TFSA to park your savings, you're better off to stick with the companies that pay dividends regularly and grow them over time.

If you have an investment horizon spanning over 20 to 30 years, you'll realize how the power of compounding works in your favour. This approach will definitely produce returns that are much higher than investing in fixed-income securities, GICs, or bank saving accounts.

With this theme in mind, here are two cheap dividend stocks that you should consider now.

Fortis Inc.

I always recommending having a couple of utility stocks in a TFSA portfolio. The logic is simple: the companies that supply power and gas to your homes and offices have very predictable revenue streams. They operate in a regulated environment in which governments fix the rates.

So, unlike many consumer-facing businesses, they're not affected by the whims of economic cycles and extreme changes in consumer demand. This predictability in cash flows helps them pay very stable dividends to investors.

Toronto-based **Fortis Inc.** (TSX:FTS)(NYSE:FTS) is one such stock that's selling cheap now, offering TFSA investors a good entry point.

Trading at $43.84, its stock price is down ~5% so far this year on concerns that rising interest rates in Canada will take the allure away from utilities that produce returns just like bonds.

But this slide in Fortis share price has made its rock-solid dividend much more attractive. With an annual dividend yield of 3.71%, the company pays a $0.425 quarterly dividend, which is expected to 6% per year through 2022 as the company undertakes $14.5 billion development projects.

BCE Inc.

Similar to utilities, Canada's top telecom company, **BCE Inc.** (TSX:BCE)(NYSE:BCE), is also trading at an attractive level amid the rising bond yields in Canada. After falling ~3% in the first three weeks of 2018, BCE stock was trading at $58.06, giving us an annual dividend yield of 5%.

This is a good juicy yield from a company with a long history of rewarding its investors. As the country's largest telecom service provider, BCE is well positioned to benefit from the growing demand for wireless services and more data consumption.

BCE pays a $0.72-a-share quarterly dividend. Over the past five years, investors have made 31% in total returns by selecting this top dividend stock. In past decades, the annual return was ~8%, turning a $10,000 investment into one worth ~$32,000 today.

In a market where it’s hard to get a stable and growing return, BCE stock is shining with 5% dividend yield. As Bank of Canada is likely to raise interest rates a couple more times this year, I think BCE shares will remain under pressure during the first half of the year. However, that weakness shouldn’t be taken as a signal for a sell-off. Instead, it’ll be a good buying opportunity.

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