TFSA Investors: 3 High-Yielding Stocks With Significant Upside to Add to Your Portfolio

Description

Investors get a bit hesitant when seeing high yields, but that shouldn't always be the case. In fact, low-yielding stocks could be just as risky as high-yielding ones, it all comes down to the financial health of the company and its long-term prospects. After all, all it takes for a yield to become high is for the stock price to plummet.

Consider a stock that pays investors $5 per share in annual dividends and has a current price of $100; it would yield 5%. However, if that stock price were to crash down to, say, $80, the yield would be 6.25% and would raise alarm bells for many investors, who'd say that the dividend is unsustainable.

The problem with this logic is that the company's financials may be just as strong as when the shares were $100, but a negative outlook for the company or industry, or even just the market, may have resulted in a sell-off. The market isn't always rational when it comes to pricing a stock, so investors need to be aware of this.

Below are three stocks that are yielding more than 7% and that could be great additions to your TFSA.

Altagas Ltd. (TSX:ALA) pays a high yield of nearly 8%, which, naturally, would have investors concerned. However, a big reason for the large payout is that the share price has dropped more than 10% in the past year and has failed to recover since the crash in oil prices. The company is so unconcerned with its payouts that it actually hiked its dividend payments late last year.

With oil prices on the rise, there is a much stronger outlook for the oil and gas industry, and that will lead to stronger financials and a higher share price. It's a good buy at its current price and presents not only a good dividend, but tremendous potential for capital appreciation.

Enbridge Income Fund Holdings Inc. (TSX:ENF) is another oil and gas stock that is in a similar boat to Altagas. Its share price has dropped almost 20% since last year, and it too could see a lot of upside as oil prices continue to recover. At an 8% yield, it offers a much higher payout than **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), which currently pays investors 5.7%.

I've previously compared the two companies as to which yield is stronger, and it ultimately came down to how long you plan to hold the investment for.

TransAlta Renewables Inc. (TSX:RNW) is the lowest yield on this list with a payout of 7.3%. In the past year, its stock has dropped more than 13% while keeping the payout intact. TransAlta raised its monthly dividend in 2017 by nearly 7%.

While the yield appears high, investors should be encouraged by not just the long-term prospects for a company that is focusing on renewable energy, but because TransAlta has accumulated significant free cash, which is strong enough to support the dividend. In the trailing 12 months, free cash of just under $300 million has been well in excess of the $202 million paid out in cash dividends by the company.

TransAlta's financials will only get stronger as demand for renewable energy continues to climb.

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3. TSX:ENB (Enbridge Inc.)
4. TSX:RNW (TransAlta Renewables)

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