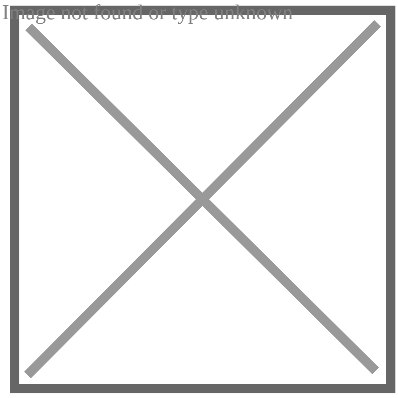

TFSA Investors: 3 Dividend Stocks to Buy With Your Extra $6,000 Contribution Room

Description

Canadian investors now have an additional $6,000 in contribution space in their TFSA, and the market pullback over the past few months is providing a variety of dividend stocks to buy at attractive prices.

Let's take a look at three top Canadian companies that might be interesting picks right now for a self-directed TFSA portfolio.

Enbridge (TSX:ENB)(NYSE:ENB)

Enbridge has a long track record of delivering dividend growth and strong shareholder returns.

In the past three years the distribution has continued to climb, but the stock price has taken a hit. In 2015, Enbridge traded as high as $65 per share. Today, investors can pick it up for about $43.75 At this price the dividend provides an attractive 6.75% yield.

What's the issue?

Opposition to major pipeline projects has some pundits concerned about long-term growth opportunities. In addition, the market didn't react well to Enbridge's $37 billion purchase of Spectra Energy in 2017. The deal created an energy infrastructure giant that transports 28% of the crude oil produced in North America and moves more than 20% of the natural gas consumed in the United States, but also put some pressure on the balance sheet.

Under a new strategic plan launched in late 2017, management is working hard to simplify the company structure and monetize non-core businesses units that do not operate in regulated environments. The company identified $10 billion in assets to sell. In 2018, Enbridge announced deals for nearly 80% of that goal.

Proceeds from the dispositions are being used to reduce debt and help cover the current $22 billion capital program. Enbridge just raised the dividend by 10% for 2019 and intends to give investors another 10% increase next year, so the outlook is positive.

Long-term investors have done well with this stock. A $10,000 investment in Enbridge 20 years ago would be worth about $100,000 today with the dividends reinvested.

Telus (TSX:T)(NYSE:TU)

Telus is a leader in the Canadian communications market, providing clients with mobile, Internet, and TV services. Management has undertaken a major capital program in recent years to build out a state-of-the-art broadband network. Investment continues to expand the company's reach and ensure Telus remains competitive, but the peak spending should be in the rearview mirror, which bodes well for cash flow available for distributions.

In fact, Telus reported Q3 2018 free cash flow growth of 41% compared to the same period in 2017. This supported another dividend hike, and Telus is on track to boost to the payout by 7-10% this year.

At the time of writing, the distribution provides a yield of 4.9%.

A $10,000 investment in Telus just 15 years ago would be worth more than $55,000 today with the dividends reinvested.

Bank of Montreal (TSX:BMO)(NYSE:BMO)

The sell-off in Canadian bank stocks has made the entire group attractive. Most investors tend to buy the three largest companies, but Bank of Montreal deserves to be on your radar as well.

Why?

The company has low relative exposure to the Canadian housing market and its large U.S. operations provide good geographic diversification. Revenue is also balanced across personal and commercial banking, wealth management, and capital markets segments.

Bank of Montreal has paid a dividend every year since 1829; the current distribution offers a yield of 4.5%.

Investors who buy today can pick up the stock for a reasonable 11 times trailing 12-month earnings.

The bottom line

Enbridge, Telus, and Bank of Montreal should all be solid buy-and-hold picks for a dividend-focused TFSA. I would probably split a new investment across the three companies today to get good diversification across various industries while picking up an average yield of better than 5%.

Another top stock also deserves to be on your radar right now.

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aswalker