Why Dividend Stocks Like These Belong in Every Canadian's TFSA

Description

Dividend stocks that offer some degree of defensiveness are among the best long-term investment ideas out there. Alongside cash, bonds, real estate, and precious metals, stocks in big banks and utilities are often seen as a sound way to increase one's wealth while sheltering it from market uncertainties.

The following four stocks on the TSX Index represent the best blue-chip tickers to get invested in for the long haul, bringing a ready-diversified mix of energy (both traditional and alternative), communications technology, and Bay Street banking that's tailor-made for passive-income portfolio, TFSA, or RRSP.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

Heading up the list is a classic TSX index banker. With a one-year past earnings growth of 10.3% and five-year average past earnings growth of 10.9%, CIBC is a steady-rolling, heavy-hitting financial stock whose prospects seem set in stone. Paying a dividend yield of 5.07% and looking forward to a 6.3% expected annual growth in earnings, it does everything as it should as a passive-income stock.

Enbridge (TSX:ENB)(NYSE:ENB)

Returns of 21.6% in the last 12 months show that this classic utilities stock has still got what it takes to outperform its peers. A slightly negative one-year past earnings rate is ameliorated by a five-year average past earnings growth of 33% while its level of debt compared to net worth has been brought down over the past five years from 142.1% to the current 88.7%.

While that balance sheet could still do with improvement, and a P/E of 34.2 times earnings shows some overvaluation, a near-market P/B of 1.6 times book, meaty dividend yield of 5.92%, and solid 34.4% expected annual growth in earnings show a strongly recommended passive-income option with key defensive characteristics.

TransAlta Renewables (TSX:RNW)

This top-tier TSX index green-energy stock saw one-year returns of 17.9% and has enjoyed a significantly positive one-year past earnings growth. As with the previous stock, TransAlta Renewables has been cleaning up its balance sheet and has reduced its level of debt compared to net worth over the past five years, bringing it down from 64.2% to within the safety zone at today's 38.9%.

A P/E of 15 times earnings and P/B of 1.5 times book show spot-on valuation, while a dividend yield of 6.82% is satisfyingly high. While a slightly negative expected annual growth in earnings may be on the cards, TransAlta Renewables remains a strong choice for a portfolio light on energy stocks.

Telus (TSX:T)(NYSE:TU)

This major TSX communications stock saw minimal one-year past earnings growth of 2.6% and five-year average growth of 1.5%, showing that it just managed to keep its head above the water. A 6% expected annual growth in earnings looks set to improve on this area, though not by a large margin.

However, the main reason this stock might be a solid choice is its large market share and a dividend yield of 4.33%. Telecommunications stocks aren't well known for being cheap, and Telus is no exception, with an acceptable P/E of 18.8 times earnings let down by a slightly-too-high P/B of 2.9 times book.

The bottom line

CIBC's past-year ROE of 14% shows moderately good use of shareholders' funds, while a P/E of 9.7 times earnings and P/B of 1.5 times book shows nearly perfect valuation for a TSX index banker. Telus, likewise, shows fairly good quality with a past-year ROE of 16% and makes a strong addition to this list of top-tier Canadian dividend stocks fit for a TFSA.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TU (TELUS)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:ENB (Enbridge Inc.)
6. TSX:RNW (TransAlta Renewables)

7. TSX:T (TELUS)

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