Earn $5,000 in Tax-Free Passive Income From These 2 Dividend All-Stars

Description

If you've been using your TFSA proceeds to invest in stocks, you're probably sitting on a TFSA that's at or around the $100,000 mark. With that, you'd need to invest in stocks that average a 5% yield to get your $5,000 in annual passive income that'll be protected from the tax man.

While you could bet on securities with yields north of the 8% mark for even more annual income, most conservative income investors wouldn't be comfortable with the added risks that come with such higher yields. So, this piece is going to cater to those who don't want to maximize their yield at the expense of safety or growth.

I'm going to focus on the most reliable stocks with yields at or around the 5% mark. And best of all, these names I'm going to mention are still capable of enough growth to support generous and frequent dividend hikes in the years ahead.

So, without further ado, meet your dividend all-stars: high-yielders with reliable payouts and above-average growth.

CIBC (TSX:CM)(NYSE:CM)

Fellow Fool contributor Will Ashworth and I are both in agreement that CIBC is the best bank for your buck at today's levels. The bank that has a history of beating and raising on earnings reports recently clocked in two quarters that fell short of expectations.

As you'd imagine, the sub-par Q4 2018 and Q1 2019 quarters exacerbated the panic of investors who were already worried about deteriorating industry conditions.

Despite CIBC's evident earnings slowdown, there are many reasons for long-term income investors to be encouraged. PrivateBancorp just turned accretive to earnings and thus far, the results have exceeded expectations. Moving forward, Private Bancorp should continue to be a bright spot for CIBC, and over time, I do believe that investors will better appreciate the U.S. business.

The acquisition price was hefty, and expenses have been a drag, but for those willing to wait it out, I suspect that CIBC is an investment that'll pay massive dividends.

The stock currently yields 5.1%, and as the U.S. business improves alongside the capital markets, I see continued dividend hikes and the potential for significant capital gains as the ridiculously cheap bank narrows the valuation gap between its bigger brothers.

At the time of writing, CIBC trades at just nine times next year's expected earnings. I think that's unsustainably low, so if you're looking for a way to get your income and some gains too, CIBC is the horse to bet on.

Enbridge (TSX:ENB)(NYSE:ENB)

It's been a painful few years for Enbridge shareholders, albeit not that painful seeing as the dividend continued to grow in accordance with management's double-digit dividend growth promise to investors.

The pipeline behemoth's balance sheet has tightened, leading many to question whether dividend hikes past 2021 will even be possible given the industry headwinds that have plagued the midstream players in the oil patch.

More recently, Enbridge recorded a fourth quarter that could only be described as encouraging. While it wasn't a rebound-inspiring quarter, there were a lot of positives. For Q4, adjusted EBITDA was clocked in at $3.3 billion, up from $3 billion over the same period last year. Distributable cash flows also propped up by $200 million year over year, which was great news for income investors who've punched a ticket to the stock with the expectation of continued annual dividend hikes over the long haul.

Despite the company's tight balance sheet and commitment to continue hiking dividend at a 10% rate, there will be a hefty amount ($1.8 billion) that'll be thrown at growth projects. Management expects 5-7% in growth moving forward, and if it can deliver, I see a scenario in which investors will get huge capital gains alongside a huge dividend (currently yielding 5.93%) that's positioned to continue growing at an above-average rate into the early 2020s.

Foolish takeaway

CIBC and Enbridge are two severely undervalued dividend stocks that'll allow prudent income investors to make a killing. Treat the recent dip in each stock as an opportunity to lock-in a higher-than-average yield, as you wait for other investors to appreciate the growth that each business is capable of.

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joefrenette