TFSA Investors: Generate $5K in Tax-Free Income From 2 Stocks With Rising Dividends and 8% Yields

Description

The Tax-Free Savings Account (TFSA) is used by Canadian investors to meet a wide variety of savings and income goals.

Some people take advantage of the TFSA to build a retirement portfolio, while others who are already enjoying the golden years can use the TFSA to generate attractive monthly income to supplement their other pension payments.

With the TFSA contribution limit now at $63,500 for any Canadian resident who was at least 18 years old in 2009, investors have an opportunity to pick up some nice tax-free income from a basket of dividend stocks.

Let's take a look at two companies that pay growing dividends and currently offer very attractive yields to start your TFSA income fund.

Inter Pipeline (TSX:IPL)

IPL is a niche player in Alberta's energy infrastructure sector with conventional oil pipelines, oil sands pipelines, and natural gas liquids (NGL) extractions assets. It also owns a bulk liquids storage division located in Europe.

The company has a knack for buying distressed assets at attractive prices. In 2016, IPL acquired two NGL processing facilities and related infrastructure from **The Williams Companies** for $1.35 billion. The seller had invested $2.5 billion to build the large-scale midstream NGL business but decided to exit due to weak returns.

Since the closing of the deal, market conditions have improved and IPL's NGL processing group led the company to record results in 2018.

Additional growth is coming from organic developments. IPL is currently building a $3.5 billion polypropylene plant. The Heartland Petrochemical Complex is on schedule and expected to go into operation in late 2021. IPL says the facility will generate $450-500 million in average annual EBITDA.

IPL raised its dividend last fall for the 10th straight year. Given the 62% payout ratio, the monthly distribution should be safe, even in the current challenging environment for the Canadian energy sector.

Investors who buy the stock today can pick up a yield of 8%.

Vermilion Energy (TSX:VET)(NYSE:VET)

Vermilion Energy is an international oil, gas, and gas liquids producer with assets located in Europe, Australia, Canada, and the United States.

The company just reported solid results for Q1 2019. On a per-share basis the company generated funds flow from operations (FFO) of $1.66 compared to $1.31 in the same period last year.

The 2019 capital program and dividend should be fully funded through cash flow from operations, and management anticipates a full-year 2019 payout ratio of 90%.

Vermilion Energy raised the monthly dividend last year from $0.215 to $0.23 per share. That translates into an annualized yield of 8.6% right now.

The bottom line

IPL and Vermilion Energy pay attractive dividends that should be safe and the current stock prices offer investors a nice opportunity for capital gains once market sentiment improves.

While it is always advisable to diversify your portfolio, an investor with the full $63,500 TFSA room split between the two stocks, or others with similar yields, would generate more than $5,200 in annual tax-free dividends from the TFSA.

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aswalker