2 TSX Index Stocks With 4-6% Dividend Yields and 30% Upside Potential

Description

Once in a while, investors get a chance to buy top-quality companies with growing dividends at discounted stock prices.

Let's take a look at two TSX Index giants that might be interesting picks right now for your RRSP or TFSA portfolio.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) trades for $37 per share right now compared to $48 last July. A drop in oil and natural gas prices is responsible for the pullback, but investors should look beyond the short-term swings in the energy sector when evaluating the stock.

CNRL is capable of riding out downturns. In fact, falling commodity prices give the company the opportunity to add strategic resources at attractive prices. CNRL already owns one of the top diversified land portfolios in the Canadian energy sector and recently added to its oil sands portfolio with the announced $3.8 billion purchase of the Canadian operations of **Devon Energy**.

The company has a strong balance sheet, is efficient in its use of capital, and generates enough cash flow to cover its dividend and the capital program. When margins improve during times of higher market prices, the board has decided to split the extra cash between stock buybacks and debt reduction. The clear guidance is helpful for investors who want to own companies with stable cash flow management.

CNRL raised the dividend by 12.5% for 2019. The current payout provides a yield of 4%.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) fell out of favour with the market in recent years. The company spent $37 billion to buy Spectra Energy, and investors became a bit uncomfortable with the balance sheet and the long-term growth prospects.

After the deal closed, the management team put a turnaround plan in place to clean up the company structure and reduce balance sheet risks. Enbridge bought out the shares of four subsidiaries and brought the businesses under the umbrella of the parent company. This means more cash flow stays in house and simplifies the organizational structure. One beef analysts had with Enbridge was the fact that it was difficult to evaluate the company.

In addition, Enbridge is refocusing its business to concentrate on regulated assets. These operations tend to have reliable and predictable cash flow. As part of the shift, the company is selling up to $10 billion in non-core assets. Buyers have already emerged for about 80% of that amount.

Enbridge is capable of funding its existing $16 billion capital program through internal means. This is important, as the market has soured on companies that issue stock to cover their dividends and investment projects.

Enbridge plans to raise the dividend by 10% in 2020 and is forecasting 5-7% annual gains in distributable cash flow in the next few years. This should support ongoing dividend hikes in the same range.

The market might not be appreciating the progress the company has made on its turnaround efforts. Enbridge trades at $46 per share compared to more than $60 at one point in 2016. Investors who purchase the stock today can pick up a 6.4% dividend yield.

The bottom line

CNRL and Enbridge appear oversold today. Investors with a buy-and-hold strategy can pick up attractive and growing dividends with a shot at some nice upside in the stock prices.

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Date
2025/09/26
Date Created
2019/06/26
Author
aswalker