TFSA Top Pick: 3 Dividend Stocks for Retirees

Description

Canadian retirees are facing higher living costs. In some cases, their company and government pension payments don't cover monthly expenses.

To make up the difference, income investors often turn to dividend stocks to squeeze extra yield out of their savings. When held inside the TFSA, the distributions are not taxed, and the income is not counted when the government determines OAS payments.

Let's take a look at three stocks that might be interesting picks for an income portfolio today.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is not always the first name that comes up when people recommend a Canadian bank, but the company deserves a closer look.

Bank of Montreal has a balanced revenue stream coming from personal and commercial banking, wealth management, and capital markets activities. Its large U.S. operation provides added diversification.

On the risk side, Bank of Montreal has less relative exposure to the Canadian residential housing market than some of its peers. A housing meltdown is less likely now that mortgage rates have pulled back, but some pundits are still predicting difficult times.

Bank of Montreal raises its dividend at a steady pace and has paid out a chunk of the profits every year since 1829. That's a solid track record. The current distribution provides a yield of 4.1%. At the time of writing, the stock trades at a reasonable 10.7 times trailing earnings.

Inter Pipeline

Inter Pipeline (TSX:IPL) is a niche player in the Canadian energy sector with oil pipelines and natural gas liquids (NGL) extraction facilities. IPL also owns a bulk liquids storage business in Europe.

The company is building a $3.5 billion polypropylene plant that is expected to go into service by the end of 2021 and will generate annual EBITDA of at least $450 million.

IPL raised the dividend in each of the past 10 years, and the 2018 payout ratio of 60% suggests the distribution should be safe. The stock appears oversold right now and offers a yield of 7.8%.

Telus

Telus (TSX:T)(NYSE:TU) owns and operates world-class wireless and wireline communications networks that provide Canadian homes and businesses with mobile, internet, and TV services. Telus spends significant funds on ensuring its customers are looked after, and the efforts appear to be paying off, as Telus regularly reports the industry's lowest postpaid mobile churn rate.

The company's Telus Health division is unique in the communications sector and is worth watching. The group is already a leader in providing Canadian doctors, hospitals, and insurance companies with digital solutions. Telus Health also owns a network of private clinics that cater to corporations and wealthy families. As the digital health segment expands, the business could generate significant revenue and profits.

Telus raises its dividend by 7-10% per year. The existing payout provides a yield of 4.6%.

The bottom line

Bank of Montreal, Inter Pipeline, and Telus should be solid picks for an income-focused TFSA portfolio. An equal investment in the three stocks would generate and average yield of 5.5%.

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1. Bank Stocks
2. Dividend Stocks
3. Investing
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