A Top TFSA Stock to Buy and Earn Higher Dividend Income

Description

What kind of stocks should be in your Tax-Free Savings Account (TFSA) if your aim is to build a regular stream of income? There are many ways you can achieve that goal depending on your risk appetite and your time horizon.

If you're a conservative investor, just like me, and invest in stocks to become a partner in solid businesses, then you're better off to build a TFSA portfolio consisting of top-quality dividend stocks.

Now, the next challenge is how to identify these stocks from a large number pool of choices. In my opinion, you should stick with the sectors that provide the basic products and services and generate recurring cash flows.

Canada's telecom companies offer one such avenue to TFSA investors. They are great cash cows. Simply speaking, they operate in an oligopoly where each operator has a big enough share of the pie to generate strong cash flows. Among Canada's three top telecom companies, I particularly like **Telus** (TSX:T)(NYSE:TU).

Telus's dividend growth

For TFSA investors, the most important thing is growth in the company's dividend. On this front, Telus is a great stock to own. In May, Telus announced a dividend hike that pushed its quarterly payout to $0.5625 a share. That dividend translates into a 4.6% annual yield on the current stock price.

At that time, Telus also said that it aims for annual hikes of between 7% and 10% in dividends for the next three years. To keep profit growing and support that shareholder payout, the company is targeting higher-value subscribers and counting on keeping costs under control at its wireless division.

The latest earnings report suggests that the operator is well on track to achieve that goal. Telus added 82,000 new mobile subscribers in the second quarter, beating consensus estimates in the range of 55,000. On the residential side, Telus added 25,000 internet customers and 16,000 television subscribers in line or slightly ahead of analyst expectations.

Telus said overall profit was up 31% to $520 million, while sales increased by 4.2% to $3.6 billion, in line with consensus estimates.

In my view, Telus is in a much better position to grow its dividends going forward when compared to other operators, largely because the company has already invested heavily to improve its infrastructure.

Bottom line

Trading at $48.60 a share at the time of writing, Telus stock is up 7% this year. That performance may not satisfy some growth-hungry investors, but it’s good enough to beat inflation and provide steady income to risk-averse investors.

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