TFSA Pension: Should You Buy Enbridge (TSX:ENB) or CIBC (TSX:CM) Stock for Passive Income?

Description

Canadians are using their Tax-Free Savings Accounts (TFSAs) to help boost income as part of their overall pension plans.

The strategy makes sense now that the TFSA limit is up to $63,500 per person. A couple can shift $127,000 in savings into their TFSAs and create a nice portfolio of dividend stocks to generate a healthy stream of tax-free cash flow.

The best companies to pick tend to have growing distributions supported by rising earnings. Ideally, they are also trading at reasonable prices.

Let’s take a look at two stocks that might be interesting for your TFSA buy list today.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) owns and operates pipelines that transport about 25% of all the crude oil that is produced in Canada and the U.S. and about 20% of the natural gas that is consumed in the United States.

The utilities division delivers natural gas to 3.7 million retail customers in Canada and generates 1,600 MW of net renewable power in North America and Europe.

The company reported steady adjusted earnings of $0.67 per share in Q2 2019 compared to $0.65 in the same period last year.

Enbridge added $2.5 billion in secured capital projects in the first half of the year and is able to cover the full $19 billion program through internal funding.

Management has done a good job of refocusing the business on regulated assets, and investors should see steady dividend growth continue in line with expected gains in distributable cash flow of 5-

7% per year over the medium term.

The stock appears cheap today at $46.50 per share and provides an attractive 6.3% dividend yield.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is Canada's fifth-largest bank.

The stock trades at a discount to most of its peers due to concerns that it would be hit hardest in the event the Canadian economy goes through a rough patch.

It is true that a rise in unemployment caused by a recession could set off a crash in the housing market, which is a big part of CIBC's loan book. Rising interest rates would also put some homeowners at risk.

For the moment, the Canadian economy is in good shape, and the Bank of Canada has put rate hikes on hold. This sets up a nice situation where any pullback in housing would likely be a soft landing, rather than a crash.

CIBC has done a good job of diversifying its revenue stream in the past couple of years with more than US$5 billion in acquisitions in the United States. Additional deals south of the border could be on the way and would provide an extra hedge against potential weakness in Canada.

The company reported solid results for fiscal Q3 2019 and increased the dividend. The stock price is up about 10% in the past month, but still appears attractive at just 9.6 times trailing earnings.

Investors who buy today can pick up a yield of 5.3%.

Is one more attractive?

Enbridge and CIBC are strong companies with good track records of dividend growth. They offer above-average dividends and both appear cheap right now. If you have some cash sitting on the sidelines, these stocks should be solid by-and-hold picks for an income-focused TFSA portfolio.

I would probably split a new investment between the two companies today.

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)

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