



Why BCE (TSX:BCE) Is 1 of the Best TFSA Stocks

Description

What makes companies suitable for your [Tax-Free Savings Account](#) (TFSA)? Many Canadian investors face this question every day, as they try to make the best use of this great saving vehicle.

Today, I will try to make this challenge a little easier for you by giving examples of the best stocks that you could buy and keep in your TFSA portfolio.

But before we get into stock picking, you must understand that the purpose of TFSA is to give Canadian a tax-free savings tool through which they invest in the markets so that they could save some money for their golden years.

Keeping this objective in mind, it's best for TFSA investors to pick companies that have a durable competitive advantage, strong recurring cash flows, and a clear bias to return capital to investors in the shape of dividends and share-buyback plans.

Once you're clear about the stocks that fall into this category, then your next step should be to see where in the market you can find value — which stocks are trading at levels that make their yields attractive? With this objective in mind, you slowly start to build your TFSA portfolio.

BCE stock has a great appeal for TFSA investors

Among dividend stocks, some of my favourite picks are telecom utilities. I like these companies because they have very simple business models that often produce very strong income flows for their investors.

What supports stability in their cash flows is that no matter what happens to the economy, we have to pay our internet and cellphone bills. These recurring cash flows allow these companies to keep hiking their payouts regularly.

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is Canada's largest telecom operator with a massive moat that helps the company generate strong cash flows. This leading position in the industry means that TFSA investors will continue to benefit, as the company rewards its investors with higher payouts each year.

For the second quarter ended on June 30, BCE reported strong financial and subscriber results. Profits rose 8.2% to \$817 million. On an adjusted basis, it reported earnings a share of \$0.94, beating the consensus forecast of \$0.90.

BCE's adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) was up 6.8% to \$2.6 billion, also beating forecasts.

With earnings momentum, another reason to buy [BCE stock](#) for your TFSA is that even after a strong rally this year, its yield is still quite attractive at about 5%. Investors will be getting more than 3% premium when buying shares now when compared with the 10-year government bond, for example.

Trading at \$64.06, BCE pays \$0.7926 a share quarterly dividend, which has been growing about 5% per year during the past decade.

Bottom line

Is it the best time to buy this top dividend stock? BCE stock is trading above analysts' 12-month price target, and it looks fairly valued. But I would definitely buy if this stock goes through a pullback and the yield once again approaches 6%.

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1. Dividend Stocks
2. Investing
3. Stocks for Beginners

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