TFSA Pension Plan: 2 High-Yield Stocks to Increase Retirement Income

Description

Canadians are using their Tax-Free Savings Accounts (TFSAs) to hold reliable dividend stocks and REITs.

The strategy makes sense for income investors, as the distributions are not taxed, and for those who are already collecting OAS, the payouts don't count toward income calculations for OAS clawbacks.

Let's take a look at two income stocks that appear cheap today and might be interesting picks for your TFSA pension portfolio.

RioCan

RioCan Real Estate Investment Trust (TSX:REI.UN) is Canada's largest operator of shopping malls.

The brick-and-mortar retail sector has come under severe pressure in recent years, as people shift purchasing to online alternatives and become more comfortable buying everything from clothes to large appliances on the web.

Major chains are closing their doors in the United States, and Canada hasn't been immune to the trend. In fact, RioCan has lost some big-name tenants, but the company's bottom line has not taken a serious hit.

Why?

RioCan gets no more than 5% of its revenue from any single client, so its cash flow is balanced. When an anchor tenant leaves, the company is able to fill the space with new businesses.

Management knows the industry is changing, and RioCan is adjusting to the new reality. The company is monetizing up to $2 billion in non-core assets and has embarked on an aggressive growth program that will see it build up to 10,000 residential units at core locations over the next decade.

The first mixed-use projects are already done or near completion, and early indications suggest the strategy is bearing fruit.

Falling bond yields and a trend to lower interest rates will help the company, as it relies on debt to fund a good part of the projects. The distribution should be very safe, and investors could start to see steady hikes, as the new developments are completed and drive higher revenue.

Investors who buy today can pick up a 5.4% yield.

Enbridge

Enbridge appears cheap at the current stock price of $47.50 per share.

The company is a leader in the North American energy infrastructure sector with pipelines that carry oil, natural gas, and gas liquids from producers to its customers in Canada and the United States. Enbridge also has renewable energy assets, including offshore wind farm projects in Europe.

The majority of the revenue comes from regulated assets, which should mean cash flow is stable enough to support the dividend. On the growth side, Enbridge is working through $19 billion in capital projects that will help drive target increases in distributable cash flow of 5-7% over the medium term.

Enbridge has made good progress on its restructuring efforts after the $37 billion takeover of Spectra Energy in 2017. The company already found buyers for roughly $8 billion in non-core assets and brought four subsidiaries in house. The result is an improved balance sheet and more streamlined corporate structure.

Enbridge says the current development program can be funded internally, meaning investors don’t have to worry about a dilutive share issue or more borrowing to raise money.

The share price was as high as $65 in recent years, so there is good upside potential for Enbridge from the current level. Investors who buy the stock now can lock in a solid 6.2% yield and wait for market sentiment to improve.

The bottom line

RioCan and Enbridge are industry leaders that pay sustainable high-yield dividends, and should be attractive buy-and-hold picks for a TFSA income portfolio.

If you only buy one, I would probably make Enbridge the first choice today.

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2. TSX:ENB (Enbridge Inc.)
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