2 Cheap Stocks With Great Dividends for TFSA Income Investors

Description

Income investors are searching for reliable dividend stocks that offer attractive yield and are reasonably priced.

A year ago, the market was flush with great dividend stocks selling at rock-bottom prices, primarily due to fears that interest rates would continue to increase in the United States and Canada. Higher rates drive up the yields offered on GICs, which compete with dividend payers.

The reversal in the trend has made GICs less attractive, and investors have returned to traditional dividend favourites in a big way. The U.S. has already cut its target rate twice this year, and the Bank of Canada is expected to follow its American counterpart with a cut in the coming months.

The surge in the share prices of many popular dividend stocks in 2019 has made the pickings a bit slim when it comes to buying at a cheap price. However, some stocks that pay solid distributions have fallen out of favour due to changing market conditions and appear oversold right now.

Let's take a look at **Inter Pipeline** (TSX:IPL) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) to see if one might be an attractive pick right now for an income-focused portfolio.

IPL

IPL serves a key role in the transport of crude oil, with conventional oil and oil sands pipelines. The company also has natural gas liquids (NGL) extraction facilities in Canada and operates a bulk liquids storage business in Europe.

Management has a keen eye for opportunities, both as strategic acquisitions and organic developments. For example, IPL is building its $3.5 billion Heartland Petrochemical Complex, which will turn propane into plastic used as a raw material for manufacturing a wide variety of products.

The stock has come under pressure amid concerns the company might have to take on too much debt to get the large capital project completed. In the Q2 earnings report, the CEO addressed the concerns and said IPL is exploring the possibility of selling the European operations to raise funds.

The Heartland project is scheduled for completion in late 2021 and is expected to add average annual EBITDA of at least $450 million.

IPL has raised the dividend every year for a decade. Investors who buy the stock today can pick up a yield of 7.7%.

CNRL

CNRL is a giant in the Canadian energy sector with resources and production facilities covering the full spectrum of the hydrocarbon segment. It has oil sands, conventional oil, offshore oil, natural gas, and gas liquids assets.

Low oil and gas prices combined with pipeline bottlenecks have made the Canadian energy patch unattractive for many investors. The stock prices of some producers with weak balance sheets have fallen more than 90% in the past five years.

CNRL, however, has a strong balance sheet, and its size gives it the capacity to buy assets at cheap prices, as we saw earlier this year, with the $3.8 billion purchase of Devon Energy’s Canadian oil sands operations.

CNRL has raised its dividend in each of the past 19 years. The current distribution provides a 4.5% yield.

The bottom line

IPL and CNRL pay attractive and growing dividends that should be safe. Both stocks appear oversold right now and should be solid picks for an income-focused TFSA.

IPL provides the higher yield, but CNRL likely offers better dividend-growth prospects in the medium term. As such, I would probably split a new investment between the two stocks today.

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