TFSA: How to Gobble Up $416 Per Month in Tax-Free Income

Description

This year is the 10-year anniversary of the Tax-Free Savings Account (TFSA) in Canada. This registered account was launched on January 1, 2009. At the end of 2018, the average amount Canadians held in a TFSA reached $27,053, which was up 21% from the prior year.

Tax-free capital growth is an obvious benefit of the TFSA. However, investors can also benefit from tax-free income if they choose to focus instead on dividends. The cumulative total for TFSA contribution room reached $63,500 at the beginning of 2009. Today, I want to look at three dividend stocks that provide monthly income. Combined in a TFSA, these equities can provide over $400 in monthly tax-free income.

Cineplex

Cineplex (TSX:CGX) operates theatres across Canada, which makes it highly susceptible to the fluctuations of the North American box office. Shares of Cineplex have dropped 2.4% in 2019 as of close on October 16. Back in March, I'd discussed why I was high on Cineplex after a less-than-stellar winter box office season.

The company posted record second-quarter revenues of $439.2 million on the back of 2.9% growth in box office revenues per patron and 6.8% growth in concession revenues per patron. Adjusted free cash flow rose 2.9% year over year to $49.3 million in Q2 2019.

Cineplex stock boasts a monthly dividend payout of $0.15 per share, representing a tasty 7.6% yield. As of close on October 16, Cineplex stock was priced at $23.50. If investors were to purchase 900 shares of Cineplex, accounting for roughly a third of their total TFSA contribution room, they would be able to gobble up $135 per month in tax-free dividend income.

Freehold Royalties

Freehold Royalties (TSX:FRU) is a Calgary-based company that is in the business of acquiring and managing oil and gas royalties in order to provide steady value to shareholders. Its stock has dropped 12% in 2019 so far. However, its real value is in its ability to generate rock-solid cash flow in order to support its attractive dividend.

In the second quarter, Freehold reported funds from operations of $30.1 million, or $0.25 per share. This was more than enough to cover its dividend levels of $0.1575 per share on a quarterly basis. That represents a monster 9.2% yield.

The stock is trading close to 52-week lows at the time of this writing. This provides a nice buy-low opportunity for investors. Freehold was priced at $6.80 as of close on October 16. If investors were to purchase 3,100 shares at a value of just over $21,000, Freehold would provide a monthly dividend payout of $162 per month tax free.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) owns and operates energy generation and transmission facilities. Its stock has shot up 41.5% in 2019 as of close on October 16. This week, I'd explained why investors should continue to bet on renewable energy stocks as the public and private sector both pledged more investment.

In the first six months of 2019, comparable EBITDA has climbed to $227 million, while cash flow from operation activities dropped to $183 million compared to $204 million in the prior year.

TransAlta last declared a monthly dividend of $0.07833 per share, representing a 6.7% yield. The stock closed at a price of $13.89 on October 16. If investors were to buy 1,520 shares of TransAlta Renewables stock, that would add up to a monthly tax-free dividend payout of $119.

Combined with these share purchases, investors would be able to snatch up roughly $416 in monthly tax-free income.

CATEGORY

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2. TSX:FRU (Freehold Royalties Ltd.)
3. TSX:RNW (TransAlta Renewables)

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