A Top TFSA Stock to Buy Now and Get Paid the Rest of Your Life

Description

If you're building an income-producing portfolio through a Tax-Free Savings Account (TFSA), then you have to select your stocks very carefully. You don't want to stuff your TFSA portfolio with stocks that are risky, unreliable, and facing disruptions.

The reason you want to avoid these types of companies is that you want to earn a stable stream of earnings for your retirement without seeing any negative surprise down the road. You want to buy dividend-paying stocks with histories of producing cash flows and paying most of them back to investors.

These stocks are also known as dividend-growth stocks. In simple words, these companies have already gone through a major expansion phase by investing heavily in their growth. Going forward, their major business philosophy is to defend their positions and reward their investors.

There are a very few stocks that fit into this criteria. Those which do are mostly boring stocks belonging to sectors such as utilities, real estate investment trusts, or insurance companies. Luckily, in Canada you have telecom utilities, which have a very strong appeal for investors whose aim is to earn income.

Telecoms in Canada operate in a kind of oligopoly, facing limited competition and generating strong cash flows. From this group, I like **BCE Inc.** (TSX:BCE)(NYSE:BCE).

BCE, also known as Bell, 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.

Earnings momentum continues

Last month, BCE reported third-quarter adjusted earnings that met analyst expectations as revenue climbed more than expected on increased wireless subscribers.

Adjusted earnings before interest, tax, depreciation, and amortization (EBITDA) in the three months to September 30 expanded 5.6% to $2.59 billion, compared with the same period a year earlier.

Third-quarter revenue rose 1.8% compared with a year ago to $5.98 billion, beating a prediction of $5.97 billion, boosted by the addition of 204,000 wireless subscribers, a 15% jump when compared with the same period a year ago.

The company reaffirmed its forecast of $3.48 to $3.58 in full year adjusted earnings per share, and a full-year revenue increase by 1-3%. Full year adjusted EBITDA was forecast to increase by 5%–7%.

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 $62.51, BCE pays $0.7926-a-share quarterly dividend, which has been growing about 5% per year during the past decade.

Bottom line

BCE stock is a good fit for your TFSA portfolio, given its dominant position in Canada's telecom market, its growing dividend, and its ability to continue generating cash flows in both good and bad economic times.

Currently, BCE is trading close to analysts' 12-month price target, and it looks fairly valued. But if you can wait, then I would definitely buy if this stock goes through a pullback and the dividend yield once again approaches 6%.

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