2 TSX Index Dividend Stocks to Start a TFSA Pension Fund

Description

Canadians are using their Tax-Free Savings Accounts (TFSAs) to build self-directed pension portfolios.

The TFSA was created a decade ago and now has a cumulative contribution capacity of $63,500 with another $6,000 being added in 2020.

This is adequate room to create a solid fund that can grow over time and provide Canadians with an extra income stream in retirement to go with their CPP and OAS payments as well as any company pensions.

Let's take a look at two stocks that might be interesting TFSA picks today.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) might not seem like an obvious pick right now. The energy sector is horribly out of favour with investors, and the advancements in battery technology are making electric cars more affordable. Climate change is becoming a bigger issue for voters, and mining the Canadian oil sands is widely targeted as a contributor to global warming.

Given all this, it might be a surprise that Suncor comes up as an investment opportunity, but the stock appears cheap today and oil demand isn't going to disappear in the near term. Gasoline is just one end product or refined oil. Lubricants, jet fuel, and asphalt are also created using crude oil.

Suncor has operations right along the value chain. Its oil sands and offshore oil production facilities benefit when oil prices are rising. The refining and retail operations can provide a nice revenue hedge when oil retreats. Overall, the integrated business supports a strong balance sheet and generates adequate free cash flow to cover steady dividend increases and share buybacks.

Suncor has raised its dividend for 17 straight years, and the current payout provides an annualized yield of 4%.

The stock trades at $41 today compared to $55 in the summer of 2018 when WTI oil was around $70 per barrel. At the time of writing, oil is US$57. Any good news on the U.S.-China trade front could move oil back above US$60, and an extended supply disruption in the Middle East would likely send it soaring. In these scenarios, Suncor could retest the 2018 high.

Bank of Nova Scotia

Bank of Nova Scotia often sits in the shadows of its two larger Canadian peers, but the stock probably deserves more respect.

Why?

The company is betting big on emerging market growth with a focus on Mexico, Peru, Chile, and Colombia. These countries form the core of the Pacific Alliance trade bloc that is home to more than 230 million people. The stock markets are already integrated, and the agreements allow the free movement of goods, capital, and labour.

As the middle class expands, Bank of Nova Scotia should see rising demand for loans and investment services among the relatively underbanked population. On the commercial side, businesses that want to expand their reach into the other countries need a wide variety of cash-management services and other financial support.

Bank of Nova Scotia raised the dividend when it reported is fiscal Q3 2019 results. The company remains very profitable and continues to grow through acquisitions at home and abroad.

Investors who buy today can pick up the stock at a reasonable 11 times earnings and lock in a 4.7% dividend yield.

The bottom line

Suncor and Bank of Nova Scotia are top Canadian companies that pay attractive and rising dividends. If you are searching for stocks to add to your buy-and-hold TFSA portfolio, these companies deserve to be on your radar.

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aswalker