Tax-Free Income: 2 High-Yield Stocks for TFSA Investors

Description

Retirees and other Canadian investors are searching for ways to generate passive income that won't be taxed by the Canada Revenue Agency.

One popular strategy involves owning dividend stocks inside a Tax-Free Savings Account (TFSA). The TFSA limit in 2020 will increase by $6,000, boosting the cumulative maximum contribution room to $69,500 per person.

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

IPL

Inter Pipeline (TSX:IPL) is a Canadian midstream energy company with operations in Canada and Europe. The domestic assets include conventional oil pipelines, oil sands pipelines, and natural gas liquids (NGL) extraction assets.

IPL's European operations include bulk liquids storage facilities spread out across five countries. IPL is considering a sale of the international business to help fund the Canadian capital program.

IPL is spending $3.5 billion to construct the Heartland Petrochemical Complex near Edmonton. The site will convert propane to plastic that is used in a wide variety of manufacturing applications. The development is on schedule and should start generating revenue by the end of 2021. IPL expects the facilities to contribute additional annual EBITDA of at least $450 million.

The stock is down this year on concerns the company might have to take on too much debt to complete the Heartland project. In the event the storage business is sold, the stock could get a nice boost. In the meantime, investors can pick up a 7.8% dividend yield.

The payout ratio is reasonable, so the dividend should be safe. The IPL board kept the dividend the same through 2019, but raised the distribution in each of the past 10 years.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) has paid investors a piece of the profits every years since 1868. That's a solid track record that has endured every major economic downturn.

The bank spent more than US$5 billion in the past two years to acquire businesses in the United States. This is the start of a plan to diversify the revenue stream and reduce the risk associated with relying too heavily on the Canadian economy. The new businesses are performing well, and management has indicated that additional deals could be on the way south of the border.

CIBC raised the dividend twice in 2019, and investors should see increases continue in line with earnings-per-share growth. The current payout provides a yield of 5%.

CIBC trades at a discount due to the perceived risk associated with its large residential mortgage portfolio.

In the past six months, the housing market has picked up a new tailwind, as reduced borrowing costs are allowing more buyers to participate. Existing homeowners are also able to renew their mortgages at lower rates, which is helping reduce the threat of defaults. As long as employment levels remain strong in key markets, the housing sector should remain in decent shape.

CIBC appears cheap today, and investors get paid well to wait for an increase in the price-to-earnings multiple.

The bottom line

IPL and CIBC appear oversold today and pay attractive dividends that should be safe. If you have some cash sitting on the sidelines, these stocks deserve to be on your radar for a TFSA income fund.

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