TFSA Income Fund: 2 High-Yield Stocks for Retirees

Description

Canadian retirees used to rely on savings accounts and GICs as a source of income on their savings, but years of low interest rates have killed that option for savings accounts, and GICs barely cover inflation.

As a result, seniors are investing in dividend stocks and REITs to get better yields. Fortunately, the arrival of the Tax-Free Savings Account (TFSA) has been very helpful for this demographic.

Why?

All income created inside the TFSA is tax-free, and the funds that are removed are not used when the CRA calculates net world income. This is important for people who receive OAS payments and don't want to be hit with a pension recovery tax.

Let's take a look at two stocks with reliable payouts that offer above-average yield.

RioCan

RioCan Real Estate Investment Trust (TSX:REI.UN) is primarily know as an owner and operator of shopping centres across Canada.

The constant headlines in the news that tell stories of dying department stores and brick-and-mortar shops losing business to online competition might force one to step back when considering RioCan as an investment.

Some retail sectors are certainly under pressure, and RioCan has lost a few big tenants, but the company's revenue base is diverse enough that no single client accounts for more than 5% of overall revenue. When big clients have left prime locations in recent years, RioCan has managed to fill the space at better rates.

The company is shifting strategy to meet the changing needs of urban dwellers. RioCan is building mixed-use facilities that combine residential and retail space. This will diversify the revenue stream and has the opportunity to drive higher profits in the coming years.

The company pays its distribution monthly, which is nice for income investors. The current payout provides a yield of 5.4%.

IPL

Inter Pipeline (TSX:IPL) operates assets in the midstream segment of the western Canadian energy sector. Its pipelines help conventional oil and oil sands producers move production to their customers. In addition, IPL has natural gas liquids (NGL) extraction facilities.

The NGL processing business tends to see wide variations in revenue due to volatile commodity prices. For example, 2018 was a great year for the group, but 2019 has been rough. Pipeline performance tends to be steady.

IPL also owns a bulk liquids storage business in Europe that has facilities in a number of countries. The company has grown the business in recent years through acquisitions but is now considering a sale of the division to help fund the capital program.

IPL is building a $3.5 billion site that will turn propane into raw material plastics. Alberta has ample cheap propane to use as feedstock, so the venture should produce solid cash flow. IPL says the Heartland Petrochemical Complex, as it is known, will generate average annual EBITDA of at least $450 million.

If the European operations are sold, the market should become less concerned about the balance sheet, and the stock could rally.

In the meantime, the dividend is covered by current cash flow and should be safe. At the time of writing, investors who buy IPL can pick up a 7.5% yield.

The bottom line

RioCan and IPL offer above-average distributions that should be sustainable. If you are searching for high-yield options for a TFSA income fund, these stocks deserve to be on your radar.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:REI.UN (RioCan Real Estate Investment Trust)

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