TFSA Income Investors: 2 Top Canadian Dividend Stocks Yielding 5-6%

Description

The 2019 bond rally and a pause in interest rate hikes in Canada have made it difficult for income investors to get decent yield on GICs and fixed-income investments today.

As a result, retirees and other yield seekers are turning to dividend stocks to boost the returns they get on their savings.

The Tax-Free Savings Account (TFSA) has now been around for a decade, and the $6,000 boost to the contribution limit in 2020 brings the total available space to $69,500 per person. This is adequate to create a meaningful dividend portfolio that can produce an attractive stream of tax-free passive income.

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

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a key player in the efficient operation of the North American energy sector.

The company's liquids pipelines transport nearly 25% of the crude oil produced in Canada and the United States. On the natural gas side, Enbridge moves about 20% of the natural gas that is consumed in the U.S., and its utilities business distributes natural gas to 3.7 million homes and businesses in Canada.

The power division owns and operates renewable energy assets including solar, wind, hydroelectric, and geothermal facilities and generates roughly 1,750 MW of new renewable power in North America and Europe.

Most of the revenue comes from regulated assets, meaning that the company's cash flow should be predictable.

Enbridge has completed the bulk of its objectives set out in a turnaround program that saw the company streamline its operations and monetize billions in non-core assets.

The board just raised the dividend by nearly 10% for 2020, and investors have enjoyed an average annual dividend increase of 11% over the past 25 years.

While distribution hikes might not be as robust in the near term, shareholders should see steady dividend growth in the range of 5-7%, which is in line with anticipated increases in distributable cash flow.

At the time of writing, the stock provides a 6.3% dividend yield.

BCE

BCE (TSX:BCE) (NYSE:BCE) is Canada's largest communications company with a market capitalization of $54 billion. The business has the financial might required to make the required investments in new technology and network upgrades to ensure it continues to meet customer demands for more broadband.

BCE's fibre-to-the-premises initiative brings fibre-optic connections right to the doorstep of its residential and commercial clients, providing a means of widening its moat and retaining customers.

Growth has come from acquisitions and the creation of new products and services. BCE has a significant opportunity to leverage its relationships with millions of homeowners and businesses to provide security services. Remote monitoring is becoming more popular as the evolution of technology enables more smart-home applications.

The company generates strong free cash flow and should continue deliver dividend hikes of about 5% per year.

BCE's stock price has pulled back a bit over the past month, giving investors a chance to buy the shares at a reasonable price to start 2020. The dividend currently offers a 5.3% yield.

The bottom line

Enbridge and BCE are industry leaders with strong track records of dividend growth. An equal investment between the two stocks would generated an average yield of 5.8%.

This would produce an extra $4,031 of tax-free income per year on a $69,500 TFSA portfolio.

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Date
2025/08/21
Date Created
2020/01/06
Author
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