TFSA Income Fund: 2 Top High-Yield Stocks for Canadian Dividend Investors

Description

Canadian retirees and other income investors are searching for reliable stocks that offer above-average yields.

This wasn't always the case, and older investors can remember a time when a savings account would pay 4% and a Canada Savings Bond had a yield of 7%.

Those days, unfortunately, are long gone. Interest rates remain at historically low levels, and bond yields are actually turning negative in some parts of the world. As a result, income investors have shifted their focus to dividend stocks.

Equities come with risk, but they are pretty much the only game in town if you want to generate yield that is above the rate of inflation.

Let's take a look at two Canadian stocks that might be interesting picks right now to start an income-focused TFSA portfolio.

Inter Pipeline

Any time a dividend yield gets above 7%, investors have to be careful, as this often signals the market is pricing in a potential cut to the distribution.

Inter Pipeline's (TSX:IPL) payout currently provides a yield of 7.7%, so it certainly falls in that category. The stock trades just above $22 per share compared to more than $30 five years ago.

The reason for the decline is partly due to a broad-based aversion to anything connected to the Canadian energy sector. The other part of the story is concern that the company might have to take on too much debt to complete its $3.5 billion Heartland Petrochemical Complex.

At this point, the distribution should be safe. The company's payout ratio in Q3 2019 was 87%, and the revenue stream on the conventional oil and oil sands pipelines should be steady. Management is considering a sale of the European liquids storage operations to help fund the Heartland project. In the event a sale is announced, the stock could move back above $25 per share.

Inter Pipeline kept the dividend at the same rate through 2019, but had previously raised it for 10 straight years. Once the Heartland Complex is in service, investors could see distribution growth resume. The facility is targeted for completion in late 2021.

Inter Pipeline pays its dividend monthly, which is attractive for income investors seeking regular payouts to complement their pensions.

BCE

BCE (TSX:BCE)(NYSE:BCE) has been a favourite pick among retirees for decades due to its stable business and consistent dividend growth. The company has become a giant in the Canadian communications industry, adding media assets to go along with the traditional network infrastructure.

The television network, specialty channels, sports teams, retail stores, and radio stations connect BCE with many Canadians on a regular basis. In addition, any time someone sends a text, streams a movie, calls a friend, or sends an e-mail in this country, the odds are pretty good that BCE is involved somewhere along the line.

BCE has the financial capacity to make the heavy investments needed to ensure it remains competitive. It delivers the broadband customers need, while also enhancing its wide moat. At the same time, the business generates adequate free cash flow to pay investors a generous dividend.

BCE's growth rate isn't overly exciting, but the company's dividend is about as safe as it gets in the Canadian market. Investors who buy the stock today can pick up a 5.25% yield.

The bottom line

Inter Pipeline and BCE pay attractive dividends that offer above-average yield. If you are searching for stocks to add to a diversified TFSA income portfolio, these companies deserve to be on your radar.

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Date
2025/08/19
Date Created
2020/01/10
Author
aswalker