Income Investors: 2 Great Canadian Dividend Stocks for a TFSA Portfolio

Description

Retirees and other income investors are taking advantage of the tax-free benefits of the TFSA to top up their pensions or employment earnings.

In 2020, the Canadian government raised the TFSA contribution limit by $6,000. This boosts the cumulative space since the 2009 launch of the program to $69,500 per person.

With a portfolio that averages a 5% yield, investors can pick up an extra $3,475 per year in income without worrying about the earnings bumping them into a higher tax bracket.

This is of particular interest to seniors, who might be near the clawback threshold for their Old Age Security pensions.

Let's take a look at two top dividend stocks that might be interesting picks for an income-focused TFSA.

CIBC

Investors often skip over **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) when searching for a bank stock to add to their portfolios. CIBC is the baby of the Big Five Canadian banks and has a reputation for getting itself into difficult situations.

Judging the bank on past mistakes might not be fair today. CIBC has worked hard in recent years to diversify its revenue stream through a series of acquisitions south of the border that added more than $5 billion in assets.

The bank's U.S. operations performed well last year and kicked in 17% of net income. The contribution should grow in the coming years, providing an even broader hedge against potential troubles in Canada.

CIBC isn't without risk. The bank is arguably the most exposed to the Canadian housing market on a relative basis, so any meltdown in house prices would hit CIBC harder than its peers.

That said, a housing crash isn't likely to occur. Interest rates are expected to remain low for the foreseeable future, and the decline in bond yields through 2019 have resulted in lower fixed-rate mortgage costs. At the same time, demand remains strong, partly supported by rising immigration.

CIBC is well capitalized and generates strong profits. The stock appears somewhat undervalued given the strength of the economy, and investors who buy today can pick up a 5.3% dividend yield.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications company with wireless and wireline networks providing mobile, internet, and TV services across the country.

In the past decade, BCE spent billions of dollars on acquisitions to shore up its wide moat. The addition of media assets that include a TV network, specialty channels, sports teams, and radio stations provided a steady supply of content and new platforms to connect with customers.

When you combine these assets with the traditional communications infrastructure, you get a powerful business that has the capability to interact with most Canadians on a weekly, if not daily, basis.

Future revenue opportunities exist in the growing demand for smart home connectivity. Remote monitoring is becoming more popular, and BCE should be able to capitalize on the demand for security services.

The company has a long track record of stable dividend growth, and that trend should continue in line with rising free cash flow.

BCE's share price has pulled back from the 12-month high, giving investors a chance to pick up the stock at a reasonable level. The current dividend provides a 5% yield.

The bottom line

CIBC and BCE pay attractive dividends and should be solid picks for a diversified TFSA income portfolio.

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Date
2025/08/23
Date Created
2020/01/16
Author
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