2020 TFSA Contribution Room: Here Are the Best Stocks to Buy

Description

Deciding what to do with your new TFSA contribution room is not always an easy decision, and it shouldn’t be.

The amount of TFSA contribution room each investor gets is scarce and can play a major role in your investing future, whether you take full advantage of its tax-free nature or not.

Because of this, investors should take their time deciding how to allocate their capital to put it to work to the best of your ability.

There are a number of quality stocks you can consider depending on your investing timeline and existing portfolio weighting, but if it were me, I’d split my $6,000 and invest it in these two top companies: **AltaGas** (TSX:ALA) and **Dollarama** (TSX:DOL).

Both companies offer investors significant growth potential over the coming years, while also being decent defensive companies in the case of a short-term market correction or recession.

AltaGas is defensive because it’s a utility and a crucial company to the energy industry in Western Canada.

Dollarama can be considered defensive because its entire business revolves around it selling inferior products to consumers, especially consumers incentivized to shop at its stores to save money.

Despite both being quality, defensive plays that can protect your capital during a short-term downtrend, they each have major growth opportunities, which is a major reason why they are such great long-term investments.

AltaGas just recently commenced exports at its Ridley Island Propane Export Terminal (RIPET), which is one of its most significant projects.

The RIPET is expected to help bring Canadian energy to new markets in Asia, which will help producers realize considerably higher net backs on the energy they are producing, which will be key for the whole industry in addition to being a great growth project for AltaGas.

Dollarama too has some exciting growth opportunities, with the number one opportunity being its stake in growing Latin American dollar store chain Dollar City.

When looking at what each company has done over the past few years, it's hard to decide which is more incredible.

AltaGas has been selling off non-core assets to reduce its debt load. At the same time it's been selling these assets, though, it's actually been growing its EBITDA. This has helped it to reduce its net debt to EBITDA ratio twofold by decreasing its debt and increasing its EBITDA, which has resulted in AltaGas being in a much stronger financial position.

For Dollarama, what's really impressive is the level of growth the company has been able to continue to find. For years, Dollarama got its growth from increasing its store count and raising the prices on its goods. However, selling inferior goods that customers demand due to their cheap prices meant Dollarama could only do that for so long, and eventually it had to find new ways to grow its revenue. It's done this through improved merchandising, managing to grow the average amount that each consumer purchases as they shop.

From a valuation standpoint, AltaGas has seen its stock become slightly undervalued as it grows its EBITDA. The company now has an enterprise value to EBITDA of less than eight times, meaning there is plenty of upside in the shares from here. Plus, it pays a dividend that yields roughly 4.8%, making AltaGas an extremely attractive buy for long-term investors.

Dollarama's past has been smoother sailing than AltaGas's, and the lack of any major headwinds have resulted in investors bidding the shares up to a pricey valuation. The company trades at an EV/EBITDA that's more than double AltaGas's as well as a price-to-earnings ratio of 26 times.

Though Dollarama shares aren't cheap, they offer huge potential for continues growth in a popular industry, which is why it's one of the best stocks you can buy today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:DOL (Dollarama Inc.)

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