TFSA Investors: 2 Stocks that Offer Strong Total-Return Potential

Description

Market participants generally don't like uncertainty. It fuels market volatility, which could severely pinch investors. However, passive income will be helpful at such times and can compensate investors' returns to some extent. Thus, amid rising geopolitical tensions, defensive investments might continue to remain in focus in 2020. Trade disputes and recession fears weighed on broader markets last year. Some of these fears seem to have eased off a bit; however, we are not quite out of the woods yet. Amid these uncertain times, let's take a look at stocks that can benefit TFSA investors with their robust yields and decent upside potential.

Telus

Canadian telecom giant **Telus** (TSX:T)(NYSE:TU) is currently trading at an all-time high. Investing in mature industries could be boring at times, but Telus continues to look strong. The stock has returned (including dividends) approximately 20% in the last 12 months. Its revenues and earnings have grown at about 5% compounded annually in the last three years. Analysts expect a similar growth in its earnings for 2020.

Telus's operational metrics continued to stay strong in 2019. Its total customer additions kept an upward trend in the last seven consecutive quarters. Its churn rate averaged around 1% in the same period. Churn rate is the percentage of total customers that left a particular service provider in a given period. Telus will likely release its Q4 2019 results on February 13. Its upbeat commentary for 2020 could cheer investors in the short to medium term.

What makes it stand tall among peers is its juicy dividend yield. Telus stock is currently trading at a yield of 4.4%, higher than the broader market's average. Apart from yield, its long dividend payment history indicates stability and predictability.

Interestingly, even if Telus stock is trading at record highs, it doesn't look significantly expensive. It is trading 16 times the estimated EPS for the next 12 months. Its historical valuation average comes around 17 times. Thus, Telus stock still seems to have a long way to go.

Canadian Utilities

Canadian Utilities (TSX:CU) could be another attractive pick given its strong dividend profile. It offers a dividend yield of 4.3%, which is much higher than its five-year average of 3.7%. Apart from yield, it is highly advisable to consider a dividend growth for income-seeking investors. Dividend growth can play a huge role in driving investors' returns over long term. Interestingly, CU's dividends increased by 10% compounded annually in the last five years. It has increased dividends for the last 47 consecutive years.

Utilities generally generate stable revenues and earnings, which enables stable dividends. Also, CU's long-term contracts and large regulated operations make its bottom line less volatile. The utility mainly operates in Canada, Australia, and Mexico. For the nine months ended on September 30, CU reported net income growth of 7% compared to the same period in 2018.

From the valuation standpoint, Canadian Utilities stock is trading 19 times its estimated earnings. This comes close to its average historical valuation, which indicates that the stock is trading at a fair valuation.

Both of the above stocks fall in the defensive investment category. These stocks might be unattractive for short-term investors, but buy-and-hold investors could reap significant returns over a longer period. As earlier mentioned, in my view, defensive stocks could continue to remain in focus, at least for 2020. Lingering trade tensions and U.S. re-elections will likely make broader markets notably volatile. This could push investors to top-yielding, safe-play stocks.

CATEGORY

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2. TSX:CU (Canadian Utilities Limited)
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