TFSA Investment Income: 2 Top Canadian Dividend Stocks for Retirees in 2020

Description

Canadian retirees are using the Tax-Free Savings Account (TFSA) as a vehicle to generate additional income.

Investments held inside the TFSA can generate returns that do not count toward income. This is important for pensioners, as it means the full value of dividends, interest, and capital gains can go right into their pockets.

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The TFSA is also useful for creating an income stream that won't be included in the CRA's net world income calculation that's used to determine OAS clawbacks.

Let's take a look at two dividend stocks that might be interesting picks right now for a TFSA income portfolio.

IPL

Inter Pipeline (TSX:IPL) currently offers a dividend yield of 7.8%.

Analysts often sound a warning bell when yields get above the 7% mark, as it could indicate the market is anticipating a cut to the distribution.

While it's true that investors need to be careful when chasing yield this high, the IPL's payout should be safe and the stock price could get a big boost in the next couple of years.

IPL held the dividend steady in 2019 after raising the distribution in each of the previous 10 years. The company uses its cost-of-service and fee-based cash flow to support the dividend, which is primarily from the oil sands and conventional oil pipeline assets, as well as the bulk liquid storage terminals.

The commodity-based cash flow, which can be more volatile, is used to fund growth projects and is generated by the gas-processing operations. In the first nine months of 2019, 83% of EBITDA came from cost-of-service and fee-based contracts.

IPL is working on $3.7 billion in capital projects, with the main focus being the $3.5 billion Heartland Petrochemical Complex. The plant will convert cheap propane into raw material plastics and is scheduled for completion in late 2021.

Once operational, the site is expected to generate average annual EBITDA of at least $450 million.

Management is considering a sale of the European bulk liquids business. In the event that a deal emerges, the stock price could surge. Investors have pushed the share price down on concerns that IPL might take on too much debt to fund its capital program.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility player with assets in Canada, the United States, and the Caribbean.

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The businesses include power generation, electric transmission, and natural gas distribution operations. These businesses operate primarily in regulated segments, meaning that revenue streams are very reliable and predictable.

Fortis drives growth through acquisitions and development programs. The current $18.3 billion capital program will significantly boost the rate base in the next four years. As a result, Fortis is providing guidance for average annual dividend increases of 6% through 2024.

Investors have received a dividend hike in each of the past 46 years, so the outlook should be solid.

Fortis is benefiting from low interest rates and declining bond yields. In the event rates start to rise again, the stock could see some downward pressure. In the medium term, however, rates are expected to remain at current levels, or even fall amid government efforts to stabilize economic activity.

Investors who buy Fortis today can pick up a 3.25% yield. The stock should be an attractive pick for adding a defensive position to your portfolio.

The bottom line

An investment split between IPL and Fortis would provide an average yield of about 5.5%. Investors can get some nice potential upside with IPL while balancing the higher risk with the stability offered by Fortis.

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