This Dividend Stock Is Perfect for TFSA Holders

Description

Tax-Free Savings Accounts (TFSAs) shield your portfolio from both capital gains taxes *and* dividend taxes. It's too good of a deal to pass up.

Many TFSA holders focus on dividend stocks. This can be a winning strategy, producing regular tax-free income that can be used for daily expenses or to buy even more stock.

Yet a TFSA dividend strategy isn't foolproof. Certain income stocks are *superior* to others, so it's important to know what to look for.

How to invest in dividends

As mentioned, TFSAs protect you from both capital gains *and* dividend taxes. If you focus purely on income, you're throwing away some of your advantages.

Consider **BCE Inc.**, the $54 billion telecom company that's a favourite among dividend investors thanks to its 5.6% dividend. That's a solid level of income, but the payout gets disappointing when you realize that the share price has only increased by 33% in *20 years*.

Sacrificing long-term growth for near-term dividends can crush your portfolio's potential. The answer is dividend *growth* companies. These stocks usually have lower upfront payouts, but compensate for the smaller yield with top-line growth.

Perhaps the best dividend growth stock in Canada today is **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP). The stock currently yields 4.3%. That's *after* a 70% increase in the share price in 2019!

Looking ahead, Brookfield stands to benefit from a secular growth opportunity that could persist for another century. This is exactly what you want out of a dividend-paying stock using a TFSA.

Here’s how to profit

Brookfield’s management team believes that the “growth of renewables will be larger than anyone expected.” Over the last five years, $1.5 trillion has been invested in new renewable generation, representing 1 million megawatts of production. Roughly 40% of that investment went toward solar, with 30% coming from wind, and the rest coming from a mix of hydro and alternatives.

The future will see even greater investment. In the next decade, Brookfield believes countless new projects will come online, totalling between $5 trillion to $10 trillion in value. With a market cap of $12 billion, the stock has a near-infinite runway of growth ahead.

Management believes that it’s one of the few future-proof stocks today — and it’s hard to disagree. The cost of renewables continues to fall year after year.

Over the next decade, natural gas production in North America and Europe is expected to fall by one-third. Coal production should drop by two-thirds. This transition alone represents $500 billion in disrupted energy that needs to be replaced with renewables.

Brookfield owns renewable energy assets all over the world, many of which throw off gobs of free cash flow, which is what fuels the current 4.3% dividend. Even after paying the dividend, Brookfield still has plenty of money to reinvest into growth initiatives, taking advantage of the seismic shift toward clean energy.

From 2009 to 2013, Brookfield deployed $1 billion in capital. From 2014 to 2019, it deployed $3.5 billion. Over the next five years, growth should accelerate even faster.

Dividend investors get a respectable yield of 4.3% with the knowledge that this payout should grow significantly in the decade to come. With a TFSA, all of those gains are tax free, maximizing the advantages of your account.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
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