Top Canadian Dividend Stocks: 2 High-Yield Picks for a TFSA Income Portfolio

Description

The sell-off in the stock market is giving Canadian retirees and other income investors an opportunity to buy quality high-yield stocks at attractive prices.

Canadians are taking advantage of the growing TFSA room to build balanced income portfolios. The maximum cumulative contribution space is now up to $69,500 per person and all income generated inside the TFSA is tax-free. This is particularly important for retirees who are receiving OAS pensions, as the dividends earned inside the TFSA are not counted toward net world income, which the CRA uses to determine OAS clawbacks.

Let's take a look at two dividend stocks that appear oversold right now and might be interesting picks for an income-focused TFSA fund.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is number four on the list of Canada's Big Five banks. Investors often skip the bank in favour of its larger peers when searching for a bank to add to their portfolios, but they might be missing out on a good long-term bet.

Bank of Montreal has a balanced revenue stream coming from personal banking, commercial banking, wealth management, and capital markets divisions. The Canadian operations are best known to investors, but BMO also has a large U.S. presence that dates back to its purchase of Harris Bank in the 1980s. The American business has grown through acquisitions over the years and now accounts for 32% of adjusted net income. This provides a decent hedge against potential weakness in Canada.

Adjusted net income for fiscal first quarter 2020 came in at $1.6 billion, representing a 5% gain over the same period last year. Adjusted return on equity remains strong at 13.5% and Bank of Montreal is well capitalized with a CET1 ratio of 11.4%.

The company pays a quarterly dividend of $1.06 per share. At the current share price of $85.25, that provides a 5% yield. BMO has paid a dividend in each of the past 191 years, so the distribution should be safe.

The stock is now trading below 10 times trailing earnings. This appears oversold. The bank remains very profitable and while recent interest rate cuts in the U.S. and Canada might put pressure on net interest margins, businesses and homebuyers could increase borrowing to take advantage of the lower rates.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a leader in the North American energy infrastructure industry with pipeline, utility, and renewable energy assets.

The oil and liquids pipelines transport roughly a quarter of the oil produced in the U.S. and Canada. The natural gas pipelines ship about 20% of the natural gas consumed in the United States. In Ontario, Enbridge owns natural gas distribution operations that supply fuel directly to homes and businesses.

Enbrdige gets the majority of its revenue from regulated assets, meaning cash flow should be predictable. The pipelines effectively act as toll booths and the natural gas distribution operations have a wide moat. A competitor isn't going to run another gas line to serve the same customers.

Enbridge cleaned up its balance sheet in the past couple of years and streamlined the business structure. The market has rewarded the efforts with a rising share price, but the recent pullback from $57 to $50 is giving investors a chance to buy Enbridge at a reasonable price. The stock now offers a 6.5% dividend yield.

The bottom line

Bank of Montreal and Enbridge pay attractive dividends that should continue to grow. The companies are strong performers in their respective industries and should be solid picks for an income-focused TFSA portfolio.

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