TFSA Investors: How to Make $500 Monthly in Tax-Free Dividends

Description

Dividends are a great way to boost your income. They can be used for a variety of purposes, like paying your monthly bills or any other discretionary expenses. Investors can hold dividend stocks in their Tax-Free Savings Accounts (TFSAs), as the total return generated from them will be tax exempt.

There has been a brutal market selloff in the last couple of weeks. The broad market index **S&P/ TSX Composite** has pummeled by more than 30% from its record high last month.

The TFSA limit for the current year is $6,000, and the total contribution limit is $69,500. I have shortlisted two top Canadian stocks that pay monthly dividends and are available at attractive valuations, particularly after the recent fall.

Pembina Pipeline

The energy infrastructure giant **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is an $18 billion company and primarily operates in western Canada.

The midstream company has little or no direct exposure to oil and gas prices, which makes it a relatively safe play. Higher oil production and greater demand from refineries work as the best combination for energy infrastructure companies such as Pembina.

Pembina stock currently offers a dividend yield of approximately 8%, notably higher than the equities at large. For 2020, the company is expected to pay a dividend of $2.52 per share.

Thus, if one invests a TFSA contribution limit of $69,500 in PPL stock today, they will accumulate around 2,670 shares, which will pay a monthly dividend of $561.

Along with a juicy yield, Pembina's dividend-growth rate was around 7% in the last five years, beating peers.

One strong reason to recommend Pembina stock now is its recent correction. It was trading close to

$53 levels on February 20, and it closed at $26 on March 12. That's a massive 50% correction, which has brought the stock around its eight-year low levels.

The coronavirus outbreak will likely lower demand globally, which will hit the corporation's next one or two quarterly numbers. The oil price rout will further dent energy investors' sentiment in an already weak market. However, that should not change the long-term outlook of the company.

Pembina will likely continue to generate stable earnings and incremental cash flows and will keep on paying dividends to investors.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) is a $3.2 billion company that engages in developing and operating renewable power generation facilities. It is the country's largest wind power generator.

While renewables continue to consistently penetrate energy markets, TransAlta has huge growth potential for the future. Its geographical diversification in Canada, the U.S., and Australia also bode well for earnings stability.

The stock has fallen more than 30% since the virus outbreak intensified market fall last month. The recent selloff makes RNW stock look even better in terms of valuation.

Notably, TransAlta stock offers a yield of 6.8% and expected to pay a dividend of $0.94 per share in 2020. Its dividend growth has been around 4% in the last five years, easily beating inflation.

So, for instance, if one wants to invest $69,500 in TransAlta Renewables stock, they will have a total quantity of around 5,790 shares. The dividends one can generate with these are $455 monthly.

Both the above industries — energy midstream and renewables — will have a little impact from the virus outbreak on their earnings. The stocks could soon start their upward march once the epidemic jitters start to wane.

Moreover, TFSA investors could equally split their annual contribution limit in these two stocks. That will diversify risk and will also fund approximately $500 monthly in dividends.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:RNW (TransAlta Renewables)

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