TFSA Investors: 2 Top Dividend Stocks Yielding 7%

Description

I am not a fan of super-high-yield stocks. They could be value traps, and dividends may not be sustainable. Interestingly, the recent market crash has uplifted the yields; as most of you know, yields and stock prices move in opposite directions. The two stocks we are going to discuss offer tasty yields and have stable earnings. The recent selloff has made these stocks even more attractive in terms of valuation.

Tax-Free Savings Account (TFSA) investors can make the most of such stocks because total returns generated from these will be tax-exempt throughout the life of the investment and at withdrawal as well.

Transcontinental

Montreal-based $1.3 billion **Transcontinental** (TSX:TCL.A) is the biggest printing company in Canada. It is also a leader in flexible packaging. The company operates through three segments, printing, digital media, and packaging.

While the coronavirus outbreak will continue to impact mainly the tourism and hospitality industry, it will have a limited impact on companies like Transcontinental. However, the stock has fallen almost 20% since last month.

In fiscal 2019, Transcontinental reported revenue growth of 20%, while its earnings fell 8% year over year.

The company focuses on expanding its market share in printing and the packaging domain and generates significant cash flows. Transcontinental has notably managed to increase its revenue share from packaging in the last few years. This bodes well from the diversification perspective.

In 2014, packaging contributed only 2% of the total revenues, while in 2019, the contribution grew to a massive 53%. Also, the segment has exhibited higher margins, particularly after its acquisition of Coveris Americas in 2018.

Transcontinental offers a dividend yield of a solid 7% at the moment. In 2020, the company is expected to pay a dividend of $0.90 per share. It has been paying dividends for the last 18 consecutive years, which indicates management's earnings predictability. Long payment history, a fair yield, and stable cash flows make it an attractive dividend stock.

Another reason to recommend Transcontinental stock now is its appealing valuation. The recent weakness has brought the stock to its five-year lows. It is currently trading six times its estimated earnings for the next year. This looks significantly cheap compared to its historical valuation and a strong yield.

Finning International

Finning International (TSX:FTT) is a heavy equipment company and is **Caterpillar's** biggest dealer in the world. The stock has fallen almost 40% since last month, bringing it closer to its 2009 levels.

Finning offers a dividend yield of 6.5%, notably higher than that of broader markets. It has increased dividends for the last 15 consecutive years.

The company has a diversified business across regions as well as by operations. Finning is expected to improve profitability due to superior execution in South America and a reduced cost base in Canada.

Higher infrastructure investments and improving business confidence in the U.K. are also expected to impact Finning's 2020 bottom line positively. Although the virus outbreak could dent Finning's earnings in an ongoing quarter, its long-term profitability remains intact.

Finning stock is currently trading at a forward price-to-earnings multiple of eight times — notably cheap compared to its historical valuation. Also, that's a more than 50% discount to what it was trading in late 2019.

It should be noted that these stocks could stabilize once the markets calm over the virus jitters. Even if these fears last longer, earnings of Finning and Transcontinental will have a little impact over the long term. Moreover, above-average yields and enticing valuations make these picks attractive dividend stocks at the moment.

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2. TSX:TCL.A (Transcontinental Inc.)

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