2 Safe Dividend Stocks to Buy Now and Hold in Your TFSA

Description

Dividends can be an effective way to supplement your regular earnings. One can add dividend-paying stocks in the TFSA (Tax-Free Savings Account) to reap the maximum tax benefits.

With TFSA, all the income generated with dividends as well as through capital gains will be tax-free throughout the life of the investment and even at withdrawals. TFSA contribution limit for 2020 is $6,000 and the total contribution limit is $69,500.

I'll recommend two safe stocks that offer stable dividends and will be prudent to hold for the long term. Non-cyclical business operations along with earnings and dividends stability are some of the important parametres for safe stocks that these two possess.

Algonquin Power and Utilities

Top utility stock **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) is one such safe stock that would be an attractive investment proposition in the current market scenario.

It offers a dividend yield of 4.6% at the moment, which is higher than the broader markets. The management expects to grow its dividends by 6% per year for the next few years.

What sets utility stocks such as Algonquin apart in the larger equities' universe is its earnings and dividend predictability. Utilities generate steady earnings, and they distribute a large chunk of that to their shareholders in the form of dividends.

Algonquin stock seems strong in terms of growth as well. Utilities generally are slow-moving stocks. However, if we ignore the COVID-19 carnage, AQN stock soared almost 50% in the last 12 months. Its faster-than-average earnings growth fueled the stock in this period.

Top dividend stock: Telus

Top telecom company **Telus** (TSX:T)(NYSE:TU) could be another safe stock in the current volatile markets. With a $27 billion market cap, Telus is among the top three telecom service providers in the country.

Telecom is a recession-proof industry, and thus, even in case of a severe economic shock, Telus's bottom line will likely remain strong. It has consistently increased the number of subscribers in the last several quarters, which could positively impact its revenues.

Telus stock is currently trading at a dividend yield of 10%, much higher than peer **BCE's** yield of 6%.

Telus is trading at 15 times its forward earnings at the moment, much cheaper than the BCE stock. It also indicates that Telus stock could be faster to recover when the broader markets normalize.

Telus stock has corrected more than 60% in the last month. This was a double whammy of the weakening market sentiment and the government's orders to telecom players to slash prices. Even if that might create pressure on the Telus's top line, its dividends will likely remain stable in the long term.

However, on the negative side, the new orders of price cuts could defer telecom companies' capital investments in the near future, which might delay their 5G deployments.

Both the above stocks have long dividend streaks and robust yields. Their recent correction makes them look even more attractive in terms of valuations. Telecom and utility stocks generally have slow price movements compared to broader markets and growth stocks. Thus, both T and AQN will likely act as effective hedges against the broader market downturn.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TU (TELUS)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:T (TELUS)

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Date
2025/07/04
Date Created
2020/03/23
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