TFSA Income: A Top High-Yield Dividend Stock for Retirees in 2020

Description

The market crash in 2020 is giving retirees and other income TFSA investors a chance to get great yield from top dividend stocks on the **TSX Index**.

TFSA strategy

The TFSA contribution limit increased by $6,000 in 2020 and is now as high as $69,500 for Canadian investors. That is adequate to build a solid tax-free income fund.

Retirees get a double benefit by using the TFSA to generate income from dividend stocks. The CRA does not tax dividends earned inside the TFSA and will not count the distributions towards net world income calculations. This is important for seniors who want to avoid OAS clawbacks.

Let’s take a look at one top dividend stock that appears cheap today.

BCE

BCE is a long-term favourite among retirees. The company has a great track record of providing reliable dividends with above-average yield. It is the leading player in the Canadian communications industry and enjoys a wide competitive moat.

Risk

The economic downturn will hit BCE’s media group. BCE is part owner of the Leafs and Raptors. With the NHL and NBA shut down, revenue is going to take a hit. In addition, BCE owns a television network, specialty channels, radio stations and retail outlets. Companies are cutting ad spending to preserve cash, and BCE’s retail stores are closed.

The media group, however, is only a small part of the overall revenue stream.

Another risk to consider is government intervention. During the last election campaign, the Liberals pledged to force telecom providers to reduce mobile charges. This could get extra attention in the current environment.

Upside

A country-wide lockdown means BCE’s wireless and wireline assets are getting significant use and should continue to generate strong results.

Broadband data demand across mobile and wireline platforms is surging due to people being forced to work from home. Families need to keep kids entertained as well. Streaming and video services are booming. That bodes well for new subscriptions and data plan upgrades.

On the expenses side, falling interest rates and plunging bond yields benefit BCE. The company uses debt to fund its capital programs, so cheaper borrowing costs can free up more cash for distributions. In addition, the reduced returns investors get from GICs and government debt make BCE’s dividend more attractive.

The company provides recession-resistant services focused on Canada. International financial instability should have limited impact on BCE’s operations.

The board raised the dividend by 5% for 2020. This is in line with the increase in recent years, and the payout should be very safe. Investors who buy the stock today can pick up a yield close to 6%.

The share price is currently at $57 compared to $65 in February, so there is nice upside potential on a market rebound. The stock briefly dipped as low as $46 in March. Additional downside could occur, but it is unlikely we will see the shares retest that level.

The bottom line

BCE is an industry leader with a wide moat and a reliable revenue stream. The stock should have limited downside from the current level in the event the overall market decides to retest the 2020 lows. Any new weakness should be viewed as a buying opportunity.

If you are searching for a top-quality dividend stock to add to a diversified TFSA income portfolio, BCE deserves to be on your radar.

The TSX Index has many sector-leading stocks that appear oversold and pay attractive dividends that should be safe. Retirees can quite easily build a portfolio that provides an average yield of 6% today.

That would generate $3,570 in annual tax-free income on a $69,500 TFSA.

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