TFSA Investors: $69,500 in These Safe Oil Stocks Will Yield $5,390 in Annual Dividends

Description

The current market volatility provides an opportunity for TFSA (Tax-Free Savings Account) investors to buy high-quality stocks at a discount. In a market downturn, investing in dividend stocks seems enticing. The lower share prices of companies increase forward yields.

So, long-term investors can benefit from capital gains as well as a predictable stream of recurring dividend income. However, dividend payouts are not a guarantee. Companies need to have strong fundamentals stable cash flows, and a low payout ratio to keep paying dividends.

I have identified three stocks in the energy sector that are unlikely to cut dividends in 2020, despite low oil prices.

Consider Canada's energy giant for your TFSA

TFSA investors can look to add Canada's largest energy company, **Enbridge** (TSX:ENB)(NYSE:ENB), to their portfolios. Shares of Enbridge are trading at $42.65, which is 26% below the 52-week high.

This has driven its dividend yield to a tasty 7.6%. Lower energy prices remain a major concern. However, due to Enbridge's secure long-term contracts, the company will continue to experience predictable cash flows.

Enbridge transports 25% of crude oil produced in Canada and the United States. It also transports 20% of natural gas consumed south of the border. Further, Enbridge has a gas distribution utility business and assets in the renewable energy power sector, making it one of the most diversified energy companies in North America.

In the last 15 years, Enbridge has increased dividend payments at an annual rate of 11%. While it continues to invest heavily in capital-expenditure projects, Enbridge's steady cash flows and strong balance sheet make a dividend cut unlikely.

A Warren Buffett bet

When Warren Buffett invests in a company, you need to take a closer look at it. Buffett's **Berkshire Hathaway** owns 1% of Canada's **Suncor Energy** (TSX:SU)(NYSE:SU). It has 15 million Suncor shares worth US$270 million as per the latest SEC filings.

Suncor is an integrated and diversified oil company. It produces and refines the commodity. Suncor is also a downstream operator — a process that converts oil into finished products. Its oil refineries should benefit from lower input costs. The energy heavyweight owns a number of oil refineries in North America. It also has several Petro-Canada gas stations.

Suncor stock is trading at $24.8, which is 45% below the 52-week high. This decline has driven its dividend yield to a juicy 7.8%. Suncor has zero debt maturities this year and $1.4 billion of debt maturities in 2021. With $6.7 billion in liquidity, the company is unlikely to cut its dividends.

Another energy stock that can increase your TFSA value

Pembina Pipeline (TSX:PPL)(NYSE:PBA) stock has lost 40% in market value in the last two months. It now has a forward yield of 7.9%. Pembina is a transportation and midstream service provider. Similar to the other stocks in this list, it is not a pure-play oil company.

It owns an integrated system of pipelines and transports several products such as hydrocarbons and natural gas. Approximately 85% of company EBITDA is protected by long-term contracts. This indicates Pembina's dividends will be safe in the near term, and the company is insulated from falling commodity prices.

The Foolish takeaway

The three companies on the list are not traditional energy players. Though lower oil prices are a major risk factor, the commodity price is expected to move higher when lockdowns are ended. This should drive the stock prices of Pembina, Enbridge, and Suncor higher.

The maximum TFSA contribution limit for an individual stands at $69,500. In case you allocate this amount in the three stocks, you will receive annual dividend payments of $5,390.

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Date
2025/08/26
Date Created
2020/05/01
Author
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