3 Top Dividend Stocks for a TFSA Income Fund

Description

The 2020 market crash is finally giving income investors an opportunity to buy top-quality dividend stocks at cheap prices for a TFSA portfolio.

Let’s take a look at three companies that might be interesting [TFSA] picks right now.

Telus

Telus ([TSX:T])([NYSE:TU]) is one of Canada’s top communications companies, providing mobile, internet, and TV services to clients across the country.

Broadband use jumped significantly in the past two months, as lockdowns forced employees to work from home offices. Telus could report a revenue boost in Q2 on higher demand for plan upgrades and additional subscriptions for television programming.

The company doesn’t own media assets but has invested heavily in its Telus Health division. The group is Canada’s leading supplier of digital services to doctors, hospitals, and insurance firms and is seeing significant uptake on its services during the pandemic. This could spark a strong growth phase for Telus Health in the coming years.

Telus remains very profitable and has a strong track record of dividend growth. The stock appears cheap at $23 and provides a solid 5% dividend yield.

Enbridge

Enbridge ([TSX:ENB])([NYSE:ENB]) is a giant in the North American energy infrastructure industry with oil, natural gas, and natural gas liquids pipeline networks. Natural gas distribution, gas storage, and renewable energy power generation round out the assets.

Enbridge has limited direct exposure to changes in oil prices. It simply acts as a toll booth for [oil producers] who need to move their product to the end users. The drop in oil production has reduced throughput on Enbridge’s core liquids pipeline network. That will eventually move back to capacity once the economy opens up again and fuel demand pushes refineries to increase crude oil consumption.

Enbridge has a strong balance sheet and can self-fund its current capital program. Despite the difficult challenges in the energy sector, Enbirdge is still maintaining its 2020 guidance for distributable cash flow.

The stock is off the March low but still looks oversold. At the current stock price of $43 per share, investors can get a 7.5% yield.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) is Canada’s largest financial institution. It is also the most profitable among the largest Canadian banks with a fiscal Q1 2020 return on equity of better than 17%.

The economic fallout from the pandemic is going to put pressure on profits at the big banks in the coming quarters. Defaults on car loans, credit cards, and mortgages will rise. Deferrals and government aid should help people and businesses get through the next few months, but the scale of the economic hit is so large that banks are headed for some difficult times over the next 12 months.

That said, the sell-off in Royal Bank’s share price likely accounts for most of the bad news. The bank entered the crisis with a strong capital position, and the Bank of Canada recently said it is confident the big banks can ride out the recession.

Royal Bank might could take advantage of its strength to make acquisitions while the industry is under pressure. This would add assets at cheap prices and drive future earnings growth.

The dividend should be safe. Investors who buy the stock now can pick up 5.2% yield and position their portfolio for a shot at some nice capital gains once the economy recovers. Royal Bank trades near $83 per share at the time of writing. It was $109 in February.

The bottom line

Telus, Enbridge, and Royal Bank are all top-quality companies that appear oversold right now and pay attractive dividends for a TFSA income portfolio.

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1. Bank Stocks
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