TFSA Investors: 1 TSX Dividend Stock to Buy and Hold Forever

Description

The TFSA (Tax-Free Savings Account) is one of the most flexible investment options for Canadians. The contributions to this account are not tax-deductible, but any dividend or capital gain withdrawals are tax-free. The TFSA contribution account for 2020 stands at $6,000, while the maximum contribution limit is $69,500.

Investing is a long-term play. You need to identify top-quality stocks to benefit from a combination of capital gains, dividend income, and compounded dividend income growth. We'll take a look at one such dividend-paying stock that has the potential to create long-term wealth.

An integrated Canadian giant for your TFSA

One of the top companies for your TFSA is **Emera** (TSX:EMA). This Canadian heavyweight has a market cap of $13.4 billion. It started off as an electric utility company and has grown into an integrated energy player. Emera has $32 billion in assets and serves over 2.5 million customers in Canada, the U.S., and the Caribbean.

Emera is well positioned to increase shareholder returns given its high-quality utilities portfolio and focus on long-term growth in earnings, dividends, and cash flow. It owns and operates cost-of-service, rate-regulated gas and electric utilities. This means Emera provides essential gas and electric services to designated regions.

As its business is overseen by regulatory authorities, the company benefits from a predictable stream of cash flows. Its investment in rate-regulated services is concentrated in regions such as Florida and Nova Scotia. These two regions have experienced stable regulatory policies and economic conditions.

Emera's earnings opportunities in its regulated business are primarily driven by net investment in the utility, also known as rate base. It also depends on the amount of equity in the company's capital structure and returns on this equity. Similar to other companies, earnings are also dependent on sales volume and operating expenses.

Emera plans to invest $7.5 billion in capital expenditures between 2020 and 2022. There is potential to increase capex between $200 million and $500 million over the forecast period, indicating a rate base growth of 8%.

A growing and sustainable dividend

Emera has managed to increase dividends at an annual rate of 6% since 2000. The company's dividends per share have risen from $0.84 in 2000 to $2.38 in 2019. It's now targeting dividend growth between 4% and 5% between 2020 and 2022. Further, Emera has targeted a long-term dividend-payout ratio between 70% and 75%. This is a reasonable ratio given the company's stable and recurring cash flows.

Emera stock is currently trading at $54.75. This is 10% below its 52-week high. Emera has a forward yield of 4.5%. An investment of $69,500 in this stock will yield over $3,100 in annual dividend payments. Over the last five years, the stock has also gained close to 37% in market value.

Analysts expect Emera earnings to grow by 8.1% in 2020 and 8.9% in 2021. Comparatively, the stock's forward price-to-earnings ratio of 18 seems reasonable if you consider earnings growth and dividend yields. Analysts tracking Emera stock have an average target price of $62, which is 13% above the current trading price. These returns will be closet to 18% after accounting for annual dividends.

Emera's safe dividends, recent pullback, and upside potential make it a solid bet for long-term TFSA investors.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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