TFSA Investors: 2 Dividend Stocks to Buy Right Now

Description

When markets are down, investors are wary of buying stocks. However, it is the best time to identify quality stocks and buy them at a discount. The recent bear market has provided Tax-Free Savings Account (TFSA) investors an opportunity to buy Canadian dividend stocks at a low valuation.

The TFSA is a flexible registered account that is gaining popularity among Canadians. The TFSA contribution limit for 2020 stands at $6,000, while the total contribution limit is $69,500. Although contributions toward this account are not tax-deductible, any withdrawals in the form of capital gains or dividends are exempt from Canada Revenue Agency (CRA) taxes.

This year has seen a massive decline in the share price of Canadian equities due to the COVID-19 pandemic. Further, with interest rates plummeting to multi-year lows, fixed income securities are no longer attractive for the income investor.

The recent sell-off is an opportune time for long-term income investors to load up on companies with an attractive dividend yield that are selling cheap.

Here are two of my top dividend picks for your TFSA.

National Bank of Canada has a dividend yield of 4.6%

The **National Bank of Canada** (TSX:NA) is the country's sixth-largest bank. It has managed to outperform its better-known peers in the last two decades. For example, National Bank stock has managed to generate annual returns of 12.9% in the last two decades after accounting for dividend re-investments.

This means a $10,000 investment in National Bank back in 2020 would have returned close to $113,000 today. National Bank stock is trading at $62.05, which is 17% below its 52-week high. The pullback has pushed its dividend yield to 4.6%.

If you invest $10,000 in National Bank stock, you can generate $460 in annual dividend payments. The company has increased dividends consistently, which indicates that this payout number will increase over the upcoming decade.

National Bank also offers a better growth potential compared to Canada's Big Five banking giants despite its huge presence in Quebec that accounts for 55% of customers. However, 19% of the National Bank's customers are located outside Canada that offers investors some diversification.

Why TC Energy is ideal for your TFSA

Another dividend stock ideal for your TFSA is **TC Energy** (TSX:TRP)(NYSE:TRP), a North American infrastructure giant. TC Energy has over $100 billion in assets and generates a majority of its EBITDA from long-term contracts.

This business model has enabled the company to maintain a consistent dividend payout over the years due to its predictable and stable cash flows. TC Energy has in fact increased dividends at an annual rate of 7% in the last 20 years.

TC Energy stock is trading at $58.56, which means its dividend yield is a tasty 5.53%. A $10,000 investment in TC Energy will generate $553 in annual dividend payments. Further, the stock has also gained 60% in the last 10 years increasing investor wealth via capital appreciation too.

TC Energy expects to increase dividend payments by 8% in 2021 and between 5% and 7% post-2021.

Its payout ratio of less than 40% makes it an ideal dividend growth stock, especially given that it has one of the strong credit ratings among pipeline stocks.

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Author
araghunath