2020 TFSA Contribution Room: 3 TSX Dividend Stocks to Buy With $6,000

Description

The Tax-Free Savings Account (TFSA) is a flexible registered account that was introduced back in 2009. The TFSA is gaining popularity among Canadians as any withdrawals in the form of capital gains or dividends are totally exempt from Canada Revenue Agency (CRA) taxes.

The TFSA contribution room for 2020 is $6,000, while the cumulative contribution is $69,500. Investing in quality dividend stocks and generating a steady stream of tax-free income is a great way to build long-term wealth. Here we look at three Canadian giants on the **TSX** to buy with the $6,000 TFSA contribution room.

A pipeline stock for your TFSA

If you are looking to invest in beaten-down oil stocks, your search should end at **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). This pipeline stock has been paying a dividend each year since 1997. In the last nine years, its dividends have increased at an annual rate of 5%.

Pembina stock is trading at $33.94, which is 37% below its 52-week high. The pullback has pushed its forward dividend yield to a tasty 7.4%. Pembina has a strong financial profile and generates 90% of earnings from fee-based contracts. Further, 80% of the company's agreements are with investment-grade counterparties.

Pembina's dividend payout ratio stands at 60%, and given its stable cash flows, a dividend cut is unlikely. Its strong balance sheet provides the firm with enough flexibility to continue investing in expansion projects. It has also deferred US$1 billion in capital expenditure between 2020 and 2021 to shore up its financials and conserve cash.

A renewables energy company

The second company on this list is **TransAlta Renewables** (TSX:RNW). The stock is trading at $14.6, indicating a forward yield of 6.4%. This is a company that should be on the radar of income and growth investors.

TransAlta Renewables is part of the **TransAlta** family. The latter operates 70 power plants in Canada, Australia, and the United States. While TransAlta Renewables is part of a high-growth industry, it also has access to the parent company's additional assets. This will help RNW expand rapidly and prioritize growth in key markets.

The stock went public back in August 2013 and almost doubled in early 2020, before the COVID-19 pandemic struck, wiping out significant gains. TransAlta has also increased dividends at an annual rate of 6% in the last five years.

The growth potential for this **TSX** stock is massive. It is well poised to outperform the broader markets in the upcoming decade.

A utility company

Shares of **AltaGas** (TSX:ALA) are trading at $15.5, which is 31% below its 52-week high. Its dividend yield is 6.1%. While AltaGas stock is down a massive 60% since July 2015, the company has focused on business transformation in the last two years.

It is now one of the top utility companies to own. The company generates over 60% of its EBITDA from the utilities segment, making it an attractive defensive buy in a market that is extremely volatile. Further, AltaGas expects to increase its rate base between 8% and 10% over the next few years.

Another reason to own AltaGas is its attractive growth prospects in the midstream business located in Western Canada. AltaGas' processing and export facilities are located in some of the fastest-growing regions in North America. Its midstream revenue was up 52% in the most recent quarter.

An investment of $6,000 split across these three stocks will generate an annual dividend income of close to $400.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:PPL (Pembina Pipeline Corporation)
4. TSX:RNW (TransAlta Renewables)

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