Dividend Investors: 3 Top Stocks for a TFSA Retirement Fund

Description

Canadian retirees and other income investors are turning to dividend stocks to boost returns in their self-directed TFSA retirement funds.

Let's take a look at three top Canadian dividend stocks that appear attractive right now for a TFSA income portfolio.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $57 billion in assets spread across Canada, the United States, and the Caribbean.

Power generation, electric transmission, and natural gas distribution might not sound like exciting businesses, but the revenue streams tend to be very reliable and predictable. This is appealing for income investors who rely on steady and growing payouts.

Fortis grows though acquisitions and internal projects. The company is currently working through a capital program valued at nearly $19 billion. These investments should boost the rate base significantly in the next four years. As a result, the board intends to increase the dividend by an average of 6% per year until at least 2024.

The stock has a low beta, meaning it tends to be less volatile than the broader market. The current dividend provides a yield of 3.5%.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $58 right now and provides a 6% dividend yield. Getting that kind of return from the big Canadian banks is rare, and the discounted share price indicates the ongoing concern in the market. Bank of Nova Scotia started 2020 above $73 per share.

The pandemic lockdowns closed thousands of Canadian businesses and drove unemployment above 13%. Aid measures from the government have helped people and businesses pay the bills during the worst months of the crash. They are also helping to get the economy back on track as the provinces lift restrictions.

Loan defaults remain low due to the financial assistance from the government and deferrals provided by the banks. Ideally, unemployment will continue to fall as the support measures expire. Pain is coming for the banks, but it might not be as bad as the market anticipates. At this point, Canada's recovery appears to be on track.

On the international front, Bank of Nova Scotia faces some risks. The bank gets about a third of its earnings from the foreign operations. The international businesses are primarily located in Latin America, with Mexico, Peru, Chile, and Colombia being the core locations. These countries continue to battle COVID-19 and a prolonged impact on their economies would be negative for Bank of Nova Scotia and its investors.

That said, the threat appears priced in at this point.

Ongoing volatility should be expected, but the stock looks cheap for buy-and-hold investors. The dividend should be safe, and you get paid well to wait for the economy to rebound.

Canadian Natural Resources

Oil and gas producers remain out of favour, even after the strong rebound in oil prices off the April low. WTI oil futures actually went negative at one point, as the market feared a shortage in global storage capacity. That didn't materialize and WTI now trades above US$42 per barrel.

Massive cuts in investment across the industry could result in tight supplies in the next few years. Some pundits anticipate a surge in WTI to US$100.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) has a breakeven point around US$30 per barrel. The company just reaffirmed its commitment to the dividend and says the cash flow outlook through the end of the year should be positive. CNRL has a strong balance sheet and took advantage of recent market conditions to boost liquidity at very low rates.

The company has a market capitalization of $32 billion, making it a major player in the Canadian market. CNRL uses its financial firepower to make strategic acquisitions during difficult times. This boosts long-term growth at very attractive asset costs.

The stock is up significantly off the March low, but still looks cheap. Investors who buy today can pick up a 6.3% yield.

The bottom line

Fortis, Bank of Nova Scotia, and CNRL all pay attractive dividends that appear safe over the next 12 months and should continue to grow over the long term.

If you have some cash available, these stocks deserve to be on your radar for a TFSA income fund.

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aswalker