Have $10,000 Worth of Space in Your TFSA? Buy and Hold This TSX Stock Forever

Description

The stock market saw a correction in the last week. Don't be disheartened if your portfolio lost value. Consider this to be an opportunity to buy your favourite stocks at a discounted price. While investing in stocks that outperform the market, it is always a great idea to invest through your Tax-Free Savings Account (TFSA). The account gives you a tax advantage on investment returns.

Investing through a TFSA

The Canada Revenue Agency (CRA) launched the TFSA in the 2009 financial crisis to encourage Canadians to save more. Every year, there is a contribution cap on your TFSA. You invest your income after tax in the TFSA. As you have already paid the tax on your contribution amount, the CRA will no longer tax you on this money.

So, you can invest this contribution in stocks that can double or triple your money or pay rich dividends. This money will grow tax-free, and when you withdraw this income, it will also be excluded from your taxable income. This year, you can contribute up to $6,000 in your TFSA. If you have never once contributed to a TFSA, you can invest a cumulative amount of $69,500.

Why should you buy Enbridge with your TFSA money?

Enbridge has many feathers in its cap. Firstly, it has the largest pipeline infrastructure in North America, which means utilities have to use its pipelines to transmit their oil and natural gas. Its market leadership gives it pricing power. Secondly, its long-term supply contracts ensure predictable cash flows of over $9 billion annually, which makes its $64 billion debt manageable.

There are some challenges. For example, Enbridge's pipeline projects face regulatory and environmental hurdles. But the company has a strong project execution, as it builds high-quality pipelines.

Plus, there is a broad industry-level risk of renewable energy replacing oil and natural gas as a preferred source of energy for environmental reasons. But this risk will take several decades to materialize. By that time, Enbridge can help you retire peacefully with sufficient passive income.

Despite these challenges, Enbridge is in a money-making business. The 20% dip in its stock price this year has reduced its valuation to 43 times its earnings per share. If not for anything, buy this stock for its dividends and do so with your TFSA. Enbridge pays dividends on the cash it generates by transmitting oil and natural gas through its pipelines. It increases its dividend by reducing its cost and expanding its pipeline infrastructure.

Enbridge's business model even attracted the dividend-loving Oracle of Omaha Warren Buffett. In July, he invested US$10 billion to buy **Dominion Energy's** natural gas transmission business.

Dividends, dividends, and dividends

Enbridge has a history of paying regular dividends for the last 25 years. In the last 10 years, the company has also grown its dividend per share at a CAGR of 14%. This growth is way above Canada's 2% inflation. Even if the dividend-growth rate slows in the coming years, it is likely to grow its dividend by 8% every year.

If you invest $10,000 from your TFSA in Enbridge now, you will lock in a juicy 8% dividend yield. And this yield will grow every year, as Enbridge increases its dividends. No low-risk, fixed-income security can give you an interest rate of 8%.

How much does this dividend yield convert into dollars? Enbridge will pay you an annual dividend of $800 on your $10,000 investment. Taking a conservative forecast, if the company increases its dividend at 8%, your annual dividend income would increase to $1,700. All this money will be excluded from your taxable income if you invest through a TFSA.

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Date
2025/07/08
Date Created
2020/09/15
Author
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