TFSA Investors: $69,500 in This Dividend Stock Pays $5,800 a Year

Description

The TFSA (Tax-Free Savings Account) is a Canadian registered account that is growing in popularity among equity investors. It is a flexible account where you can generate tax-free income by holding quality dividend-paying stocks.

Any withdrawal from the TFSA in the form of dividends, interests, or capital gains are exempt from taxes, which makes it an ideal account to hold dividend-growth companies. Further, in 2020, it's possible to deposit up to $69,500 in a TFSA in a single year.

The cumulative TFSA contribution room stands at $69,500 in 2020, while the maximum contribution room for this year is $6,000. We can see a new account holder who was eligible to contribute towards the TFSA since the account was introduced back in 2009 can deposit a substantial amount.

You can leverage the TFSA contribution room to generate several thousand dollars a year in dividends. If you invest $69,500 in the **iShares S&P/TSX 60 Index ETF**, which has a dividend yield of 2.8%, you can generate close to $2,000 in annual dividend income.

While this seems a nice little bonus, you can identify individual stocks with a higher dividend yield to increase yearly payouts. In fact, there is one blue-chip company on the TSX with a high forward yield that you can earn $5,800 a year tax-free by holding it in your TFSA.

Enbridge is a large-cap pipeline company

Shares of **Enbridge** (TSX:ENB)(NYSE:ENB) have been trading significantly lower in 2020. The stock has lost 33% in the last year due to the COVID-19 pandemic as well as the oil price war between Russia and Saudi Arabia. However, the recent decline in stock price has meant Enbridge investors can enjoy a dividend yield of 8.4%.

So, a $69,500 investment in Enbridge stock will generate over $5,800 in annual dividend payments. While it seems a good idea to invest in high-dividend-yielding companies, investors should ensure these companies have the capability to maintain and increase payouts over time.

Enbridge is a domestic giant and a Dividend Aristocrat. It has increased dividends at an annual rate of 11% in the last 25 years. Why has the company managed to be one of the top dividend-growth companies in the last two decades?

Enbridge's diversified asset base and fee-based business model has helped the company generate a steady stream of cash flows. Over 95% of its EBITDA is backed by long-term contracts, making it relatively immune to commodity price fluctuations.

While most energy companies are grappling with mounting losses, Enbridge expects to earn distributable cash flow per share between $4.50 and $4.8 in 2020. Comparatively, this figure stood at $4.5 in 2019. Further, Enbridge pays annual dividends of $3.24, which means its payout ratio is less than 70%, making a dividend cut highly unlikely.

The Foolish takeaway

Enbridge has approximately $10 billion worth of projects under process right now. These investments are expected to add $2.5 billion in EBITDA, which will help the company increase dividends in the future as well.

While it does not make sense to allocate your entire TFSA contribution room to a single stock, you can use this as a starting point for your research and identify similar companies that have a strong balance sheet and the ability to grow dividends over time.

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