TFSA: These 2 Stocks Under $50 Can Give You $6,000 in Passive Income for a Lifetime

Description

The COVID-19 pandemic put many Canadians out of work. The Justin Trudeau government came to the rescue with generous cash benefits to help Canadians with their living expenses. But the current crisis reiterated the need for passive income where the money keeps coming whether you work or not. If you are nearing your retirement, you would have your life savings. You can make that money work for you instead of looking for a job in these difficult times. You just need to invest in the right stocks.

Investing in dividend stocks through a TFSA

The government offers a Tax-Free Savings Account (TFSA) that protects your investment income from taxes. You pay tax on your contribution, but you don’t pay tax on your withdrawals. Hence, it’s a good way to invest in high-growth, high-dividend stocks that generate higher income from the investment. If you have never invested in TFSA, you can contribute $69,500 to avail of tax benefits on withdrawals. Any amount you contribute above that will not get the tax benefit.

The stock market is surging, even when the economy has collapsed, with technology stocks leading the way. This rally has either made them overvalued or priced them for perfection. But the pandemic has hit traditional Dividend Aristocrats that rely heavily on the economy. Companies in traditional businesses that enjoy strong and stable cash flow generally pay dividends.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) is one such traditional business. It gets regular cash flows by transmitting oil and natural gas through its largest pipeline infrastructure in North America. The sharp dip in oil demand after the pandemic grounded planes worldwide and restricted international travel.This has significantly reduced the transmission of oil, thereby reducing Enbridge's second-quarterrevenue by 40% year over year (YoY). However, its exposure to natural gas and renewable energyoffset some of the declines. Its stock is down 30% to the 2012 level.

Unlike oil companies that have plunged to losses, Enbridge continues to remain profitable, as its commodity cost also reduced with demand leading to just a 3% decline in net earnings. As the economy reopened in June, oil demand started to improve. The International Energy Agency (IEA), in its 2020 world energy outlook, expects oil demand to return to the pre-pandemic level in 2023. But it doesn't rule out the possibility of a delayed recovery by 2025.

Despite weak oil demand, Enbridge will continue to pay dividends. In the worst-case scenario, it might not increase its dividend per share for the next two years. Despite this, Enbridge is an attractive stock that offers dividend yields of 8.3%. Given its 25-year dividend history, you can be rest assured to get at least $2,800 in annual dividend income on an investment of $34,750. The stock will surge as much as 40% when the economy recovers in three to five years, increasing your principal amount to $48,600.

SmartCentres stock

Other than pipeline infrastructure, real estate is another good Dividend Aristocrat.

Canada's largest retail REIT **SmartCentres** (TSX:SRU.UN) has 166 properties on 3,500 acres of owned land across Canada. The pandemic impacted retailers, where SmartCenters has huge exposure.

Small retailers are closing their business, and many of them could default their rents. The REIT has set aside $15 million in provision for default. Low demand for shops has reduced the fair value of its investment properties by $203 million. Both these amounts saw SmartCentres report a net loss of $133.7 million in the second quarter and reduced its stock price by 35%. However, these are the provision and not actual losses. Its cash flow is still strong and sufficient enough to pay dividends. Hence, its dividend yield surged to 8.9%.

As the lockdown eases and retail stores reopen, its rent collection is improving. SmartCentres stock will surge as much as 50% when the economy normalizes, increasing your $34,750 investment to $52,000. Besides this, it will pay $3,100 in annual dividends for a lifetime.

Investor corner

If you equally distribute your $69,500 TFSA contribution in Enbridge and SmartCentres, you will lock in $6,000 annual dividend income for a lifetime, which equates to $500 a month. When the economy recovers in the next three to five years, your actual contribution would also surge to $100,000.

CATEGORY

1. Coronavirus

2. Dividend Stocks
3. Energy Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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Date
2025/08/25
Date Created
2020/10/15
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