TFSA Users: $10,000 in This 8.83% Dividend Stock Pays $883/Year

Description

Tax-Free Savings Account (TFSA) users should always be on the lookout for incremental income that helps them boost their account balance. Stocks such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) are some of the hottest dividend companies due to attractive dividend yields and recent weakness in the energy sector. Dividend companies allow you to generate recurring dividend income as well as benefit from capital gains over the long term.

Pembina has a forward dividend yield of 8.83%, which translates to an annual payout of $883 on a $10,000 investment. While dividends may seem insignificant in the short term, they can generate substantial wealth over long periods.

For example, if Pembina increased dividend payouts at an annual rate of 5% over the next two decades, annual dividends would increase to $2,230 at the end of the period after accounting for reinvestments. Further, cumulative payouts will be close to $30,000 in the 20-year period.

Dividend stocks such as Pembina are an excellent alternative to income investors given that bond yields are nearing record lows.

Pembina is a top pick for your TFSA

Any dividends, capital gains, or interests earned in your TFSA are exempt from Canada Revenue Agency (CRA) taxes. This makes dividend-paying companies such as Pembina good buys for your TFSA portfolio.

Similar to energy peers, Pembina has underperformed broader markets and is down 41% year to date. It is a midstream oil and gas company, which means it does produce oil but also stores and transports the commodity.

With a monthly dividend of $0.21 per share, Pembina pays invertors annual dividends of $2.52. The company has been paying a monthly dividend since 1998 and raised payouts or eight consecutive years. However, due to a fall in crude oil and natural gas prices in 2020, Pembina's net income fell

62% year over year in the last two quarters. This meant the company's payout ratio stands at an unsustainable 132%.

Alternatively, Pembina's revenue is relatively stable and is derived from long-term contracts. During the Q2 earnings call, Pembina claimed its accounts receivable was 97%, which suggests it has an investment-grade balance sheet. Further, its EBITDA and adjusted cash flow were higher in the first six months of 2020 compared with the prior-year period. If oil prices recover in early 2021, Pembina's earnings growth will drive stock prices higher.

Focus on improving liquidity

Pembina expects EBITDA for 2020 in the range of $3.25 billion and $3.55 billion, which is in line with its previous guidance. The company continues to focus on improving liquidity by terming out $850 million of debt drawn on its credit facility and establishing a new $800 million revolving credit facility.

Pembina's liquidity position at the end of Q2 stood at $2.8 billion with no debt maturities for the balance of 2020 and $600 million of maturities distributed throughout 2021. In the first quarter, the company deferred $4.5 billion of capital projects and remains on track to reduce capital investments by $1.1 billion in 2020. This will be marginally offset by project delays that will result in cost overruns of $100 million this year.

Analysts covering Pembina stock have a 12-month average target price of $39.73, which indicates an upside potential of 40% from the current trading price of $28.26. After accounting for its dividend, Pembina might generate returns of close to 50% in the next year.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks

2. Energy Stocks
3. Investing

Date
2025/08/27
Date Created
2020/10/28
Author
araghunath