TFSA Investors: 3 Cheap Stocks That Could Soar in 2021

Description

Canadians use the TFSA to meet a variety of financial goals. One popular TFSA strategy involves buying cheap stocks that pay reliable dividends and have the potential to deliver big gains in the coming years.

TFSA advantage

The TFSA cumulative contribution limit in 2020 is as high as $69,500 for Canadian residents who were at least 18 years old in 2009. The TFSA limit for 2021 will likely be $6,000, bringing the total space to $75,500. That's significant room to help investors earn tax-free interest, dividends, and capital gains.

Investors make TFSA contributions with after-tax income. The funds can be removed at any time, and the TFSA space increase the next year by the amount withdrawn. This gives investors great flexibility to take funds when needed for an emergency and replace the money when times are back to normal.

TFSA picks for 2021

The market recovery off the March crash wiped out a most of the good bargains this year, but some top dividend stocks still appear oversold and could deliver big gains in 2021.

Let's take a look at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), **Enbridge** (TSX:ENB)(NYSE:ENB) and **BCE** (TSX:BCE)(NYSE:BCE).

Is Bank of Nova Scotia stock a buy now?

Bank of Nova Scotia is Canada's third-largest bank. The stock has underperformed its peers this year due to its large international business focused on Latin America. Bank of Nova Scotia has significant operations in the Pacific Alliance countries of Peru, Chile, Colombia, and Mexico. The pandemic hit these markets hard, and it will take time for them to recover.

That said, Bank of Nova Scotia remains very profitable and the stock still looks cheap. The shares currently trade near $64 compared to $74 in February. It wouldn't be a surprise to see Bank of Nova Scotia top $75 next year. Investors who buy today can pick up a 5.6% dividend yield and simply wait for the recovery.

Should Enbridge stock be a TFSA top pick?

Enbridge trades near $41 per share compared to the 2020 high around $57. The company's liquids pipeline operations saw a drop in revenue due to lower crude oil throughput. Refineries are not making as much jet fuel and gasoline, so they don't need as much crude oil delivered from the oil producers.

As COVID vaccines roll out next year, travel restrictions should lift, and airlines will see capacity start to improve. At the same time, workers will start returning to offices. This will boost fuel demand. Enbridge's oil pipeline traditionally run near capacity, so the medium-term outlook remains positive for the group.

In the meantime, Enbridge's renewable energy and natural gas utility assets continue to perform well. The stock looks cheap, and TFSA investors who buy now can pick up an attractive 7.9% dividend yield. A move back above $50 per share is possible in 2021.

Why BCE stock could rebound in 2021

BCE reported a sharp drop in advertising revenue across its media operations in the Q3 2020 results. The division owns a television network, radio stations, specialty channels and pro sports teams. The situation in the media space should start to normalize by the second half of next year.

BCE's wireless and wireline network groups bring in the bulk of the revenue and continue to generate solid free cash flow. The stock trades around $57 compare to a 12-month high of $65 per share. Low interest rates should drive demand for safe dividends next year, and that bodes well for BCE. The current dividend provides a yield of 5.8%. The stock could see 20% upside by the end of 2021.

The bottom line

Bank of Nova Scotia, Enbridge, and BCE all pay great dividends and appear oversold today. If you have some cash to put to work in your TFSA these stocks deserve to be on your radar for 2021.

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aswalker