Canadians: How to Make a Tax-free Passive Income of Over $400/Month

Description

By now, we all have realized the importance of having an additional or passive-income stream. A passive-income stream would have proven to be a valuable lifeline for millions who lost their jobs due to the pandemic. As for those who didn't face the economic hardship due to the pandemic, a passive-income source would have provided additional resources to buy top TSX stocks at rock-bottom prices.

While there are multiple avenues through which you can earn passive income, I prefer dividend stocks. Shares are the cheapest and easiest way to start earning a passive income. Investments made through your TFSA (Tax-Free Savings Account) will allow you to earn a dividend income that the CRA (Canada Revenue Agency) cannot tax.

So, if you are willing to start a passive-income stream, consider buying these Dividend Aristocrats.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is one of the most valuable companies for investors seeking a growing passive-income stream. Despite the significant challenges from the pandemic, the energy infrastructure company raised its dividend for the 26th consecutive year, which is commendable and reflects the resiliency of its cash flows.

Enbridge's low-risk and diverse conventional and renewable energy assets help generate strong EBITDA and drive its DCF (distributable cash flow) per share. Its low payout ratio (60-70% of the DCF) is sustainable in the long run.

The company's continued investments in renewable power and natural gas augur well for future growth. Meanwhile, productivity and cost savings, a multi-billion-dollar secured capital growth program, and a favourable long-term energy outlook should further help the company to generate robust cash flows and drive its dividends higher.

Enbridge's new annual dividend stands at $3.34, reflecting a dividend yield of 7.8%.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) has consistently paid its monthly dividends this year, despite significant headwinds stemming from the erosion in demand and supply-chain constraints. The company's stable dividend payouts reflect its ability to generate robust fee-based cash flows and indicate the strength of its base business.

Pembina Pipeline's business is highly contracted, and the company generates most of its EBITDA from assets with fee-based cash flows. Investors should note that Pembina has paid over $9.1 billion in dividends since its inception in 1997. Its dividends have increased at a compound annual growth rate of 6.5% in the past five years.

While Pembina has said that it will not announce an additional dividend hike for the rest of 2020, I believe the company could increase its annual dividend in 2021, thanks to its resilient fee-based cash flows and diverse revenue streams. The recovery in demand should further fuel growth and support its payouts.

Pembina pays a monthly dividend of $0.21 per share, reflecting a yield of 7.4%.

Bottom line

If you have not opened or never contributed to the TFSA before, you have a total accumulated TFSA contribution room of $69,500. A $69,500 investment in any of these stocks could fetch you a tax-free dividend (passive) income of over $400 a month.

Both these companies generate resilient cash flows and have a sustainable payout ratio, which suggests that you could expect continued growth in dividends over the coming years.

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