



TFSA Investors: 2 Top Dividend Aristocrats to Buy Now

Description

The market is giving retirees and other income investors a chance to buy some top dividend stocks at cheap prices today.

Why retirees should hold dividend stocks in a TFSA

Advisors often recommend putting dividend stocks in taxable accounts. This makes sense for some people. Dividends are taxed at a lower rate than regular income. In cases where investors have large portfolios and rely only on dividends for earnings, there is a chance they wouldn't pay any [tax](#) at all on dividend income of even \$50,000, depending on where they live in Canada.

For most retirees, however, income comes from a variety of taxable sources. Company pensions, CPP, and OAS pensions are all taxed. Withdrawals from RRSPs or RRIF payments also count as taxable income.

Seniors who collect OAS have to watch out for the OAS clawback. The CRA implements a pension recovery tax on OAS payments when net world income tops a certain level. The kicker with dividend income from taxable accounts is that the CRA uses the grossed-up amount when making the net world income calculation for the year.

Dividends paid inside a TFSA avoid the problem. The CRA doesn't count TFSA income towards the net world income total. Depending on your level of overall earnings, the impact could be a significant savings on the potential [OAS clawback](#).

Best stocks for TFSA income

Companies with great track records of dividend growth during all economic scenarios tend to be reliable picks. Although stock markets appear expensive right now, some top Canadian dividend stocks actually trade at attractive prices.

Let's take a look at **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) to see why they might be interesting TFSA income picks today.

Why Enbridge stock deserves to be a top dividend pick

Enbridge just received some good news. The company's pipeline that runs from Michigan to Ontario won't be shut down. Michigan's governor threatened to cancel an easement that allows the pipeline to run underwater where Lake Michigan and Lake Huron meet. Enbridge will instead foot the bill to build a tunnel to house a replacement line.

Anti-pipeline sentiment will not end and new mega-projects face challenges. This means existing pipelines become more valuable and Enbridge owns the largest oil and gas pipeline network in North America.

Enbridge appears oversold at the current share price, and investors can pick up a 7.5% yield. The board raised the dividend last year and increases should continue in line with expected growth in distributable cash flow of 5-7% per year.

Why Canadian Natural Resources stock looks cheap

CNRL is a leader in the Canadian energy sector with oil and gas production that spans the full hydrocarbon spectrum. The company owns oil sands, conventional oil, light oil, offshore oil, natural gas, and gas liquids assets. CNRL tends to control full ownership of its projects, giving management flexibility to move capital around the portfolio to take advantage of shifts in commodity prices.

The price of WTI oil is up significantly in recent months, rising from US\$37 in November to the current price near US\$55. CNRL says its operational breakeven point sits around \$30, so the company has the potential to generate significant cash flow at the current market price.

CNRL raised the dividend in early 2020 before the pandemic hit and maintained the increase, despite the challenging market conditions. The stock recovered nicely off the 2020 low but still appears cheap. CNRL trades near \$30 per share at the time of writing compared to \$40 last February. The price of oil, meanwhile, sits at a 12-month high.

The current dividend yield is 5.6%.

The bottom line for TFSA income

The oil and gas industry faces some long-term headwinds, but it will be decades before we get to the point where renewable energy fully replaces traditional energy. Enbridge and CNRL pay attractive dividends for TFSA income investors and should continue to grow the payouts. The stocks still appear oversold right now, but that might not be the case in six months.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

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

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/08/23

Date Created

2021/02/03

Author

aswalker

default watermark

default watermark