2 Safe Big Dividend Stocks to Hold in Your TFSA

Description

By holding safe big dividend stocks in your Tax-Free Savings Account (TFSA), you can pretty much ignore any market volatility. You would be able to ride through any stock market corrections because you'd get paid generous dividend income year in year out.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) stock's growth has slowed to a crawl. That's alright, though, because it compensates with a big dividend. At the moment of writing, it provides 7.44% yield, which is almost three times that of what the Canadian market offers.

So, even though Enbridge stock will likely increase its dividend by about 3% per year over the next few years, it would still be able to provide estimated annualized returns of +10% in the period.

Additionally, the blue-chip stock is moderately undervalued with a 12-month analyst average price target that's approximately 15% higher.

With a 25-year track record of dividend increases and a generation of largely regulated or contracted cash flows, Enbridge's big dividend is above-average secure.

In fact, its cash flow has demonstrated exceptional defense and resilience even through the financial crisis of 2008, the commodity price collapse in 2014, the Alberta forest fires in 2016, and the COVID-19 pandemic last year.

Consequently, interested investors can consider holding ENB shares in their TFSAs for passive income as a part of their diversified stock portfolios.

H&R REIT

H&R REIT (TSX:HR.UN) stock is set up for a much safer dividend. After cutting its cash distribution by half in May 2020, its payout ratio (based on the more conservative metric of adjusted funds from operations) was 49% in Q3 2020.

Other than retail rent collection, which has been lower across the industry, currently, H&R REIT has experienced no serious deterioration in its diversified portfolio. Its office, residential, and industrial rent collection was in the 96-100% range from Q2 to October 2020. These assets contribute about two-thirds of its rental income.

REITs pay out cash distributions that are like dividends but are taxed differently. In non-registered accounts, the return of capital portion of the distribution is tax deferred until unitholders sell or their adjusted cost basis turns negative.

REIT distributions can also contain other income, capital gains, and foreign non-business income. Other income and foreign non-business income are taxed at your marginal tax rate, while capital gains are taxed at half your marginal tax rate.

Therefore, interested investors can consider holding H&R REIT in their TFSA for tax-free income to save from above tax headaches.

One safe strategy is to hold H&R REIT shares, pocket its 5.1% yield, and sell it close to the analyst consensus price target to realize +17% price appreciation.

The Foolish takeaway

Investors can take a passive approach in their TFSAs by buying safe big dividend stocks like Enbridge stock when they're reasonably priced (as ENB stock is right now) or trade mispriced stocks like H&R REIT actively.

Over the next three years, both dividend stocks should deliver safe juicy income while providing satisfactory price appreciation. Enbridge is growing its distributable cash flow at a rate of about 3-5%, which should help drive its stock higher over time.

H&R REIT is undervalued. If it can demonstrate the collection of safe rental income over the next few years, its mispriced shares will surely trade much higher — perhaps in the $20-per-unit range.

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:HR.UN (H&R Real Estate Investment Trust)

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