TFSA Income Investors: 2 Top Dividend Stocks Now on Sale

Description

The broader stock market continues to hit news highs, but some top dividend stocks still look cheap right now for TFSA income investors.

Why Fortis stock looks like a dividend deal

Fortis (TSX:FTS)(NYSE:FTS) owns utility businesses in Canada, the United States, and the Caribbean. Utility stocks are standard go-to picks for income investors who want reliable and growing payouts. In the case of Fortis, revenue primarily comes from regulated assets that include power generation, electricity transmission, and natural gas distribution.

The company has a long track record making strategic acquisitions to drive growth. The current focus, however, is on internal capital projects. Fortis has a $19.6 billion capital program on the go that should boost the rate base from about $30 billion in 2020 to $40 billion over five years.

The board raised the dividend by 5.8% in 2020 and intends to boost the payout by an average of 6% per year through 2025. At the time of writing, investors can pick up a 4% yield.

Fortis isn't without risk. When interest rates start to rise, as they did through most of 2018, the stock can get hit. The theory is that investors move out of safe dividend stocks to even safer guaranteed investments when those returns improve. Treasury yields are starting to rise in the United States. This could mean the market thinks the Fed will start to raise interest rates earlier than anticipated. Time will tell, but it will likely be 2023 before the Fed makes a move.

Fortis stock appears cheap right now below $51 per share. The 12-month high is $59. You get a great company with strong dividend-growth guidance and an attractive yield for a TFSA income fund. Once interest rates do start to rise, the dividend growth should help offset the closing of the yield gap.

Why Enbridge is still a top dividend stock

Enbridge (TSX:ENB)(NYSE:ENB) moves 25% of all the oil produced in Canada and the United States. It also carries 20% of U.S. natural gas consumption and has a growing renewable energy division.

The oil industry took a big hit last year, but it is starting to recover on the back of rising oil prices. Demand will continue to increase through 2021 and into next year, as COVID-19 vaccination programs progress and governments slowly open up the economy.

Commuters could head back to offices in large numbers by September. Airlines probably won't see their situation improve meaningfully until late this year or early 2022. This all points to surging fuel demand in the coming months. Enbridge moves crude oil feedstock from producers to refineries that turn it into gasoline, diesel fuel, and jet fuel.

Opposition to new major pipeline projects hurts Enbridge's ability to grow through organic development, but it also makes the infrastructure that is already in place more valuable. Enbridge is a giant in the industry and has the financial firepower to make acquisitions as the sector consolidates.

Management sees distributable cash flow increasing at a 5-7% annual pace. Dividend growth should follow along the trajectory.

The stock trades below $44 compared to $55 a year ago. Investors who buy now can pick up a juicy 7.6% yield with a shot at decent capital gains in the next few years.

The bottom line on top income stocks for a TFSA

Income investors with a buy-and-hold strategy should be comfortable adding Fortis and Enbridge to their portfolios. The stocks appear cheap right now in an otherwise expensive market.

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Date
2025/08/24
Date Created
2021/02/22
Author
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