TFSA: 2 TSX Stocks That Can Earn You $290 of Monthly Passive Income

Description

If you haven't started, now is as good a time as any to begin investing in your Tax-Free Savings Account (TFSA). There are only a few opportunities in life to earn tax-free passive income, and the TFSA is one of them.

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There are various ways one can utilize the TFSA. One way is to make it a venue for passive income. While there is some debate right now between buying bonds or income stocks, I still lean towards stocks. With government bonds, you are lucky to earn 1.5% in interest. At this point, that barely beats inflation.

Bonds are up, but I'm sticking with stocks

Right now, over the bond's life, you are essentially only preserving your capital (unless somehow interest rates were to drop drastically). That income is safe, but you also have to consider your opportunity costs. For income, I'd rather focus on quality stocks that produce stable cash flows and still have room for growth. A great hedge against inflation is a dividend-growth stock.

Considering this, here are two top TSX stocks that not only pay a nice dividend but have a solid basis for stable long-term cash flow growth. While I recommend a more diversified TFSA portfolio, if you put $30,000 into each of these stocks, you could earn as much as $868 per quarter, or $290 per month (if averaged across the year).

A TFSA stock playing on strength in energy

Enbridge (TSX:ENB)(NYSE:ENB) stock looks really well positioned here. For income, it is a great add to your portfolio. Given its high dividend of 7.45%, there is a little bit of risk built into the stock. However, if you take a closer look, the risks are relatively lower than perhaps the market comprehends.

Enbridge's cash flows are primarily derived from contracted or regulated assets. It has very little direct commodity exposure. However, if oil prices keep rising, Enbridge's toll-road pipelines benefit, as energy producers increase production activity and volumes.

Going forward, the company is strategically focusing on more de-risked, carbon neutral capital projects that assist in the renewable energy transition (carbon capture, hydrogen, renewable natural gas, etc.). With its current capital plan, management sees 5-7% distributable cash flow growth over the next two to three years. That likely means some dividend growth, share buybacks, and debt reduction will provide upside for this TFSA stock.

A TFSA stock that just got cheaper

Another great income stock for your TFSA is **Algonquin Power** (TSX:AQN)(NYSE:AQN). It is a diversified utility and renewable power producer across North America. The company just announced year-end results. Despite challenges presented by the pandemic, the company still grew revenues, adjusted EBITDA, and net earnings by 3%, 4% and 14%, respectively.

Due to the recent Texas cold-weather crisis, the company expects as much as a $45 million to $55 million impact to adjusted EBITDA in 2021. That is about a 5% impact to total adjusted EBITDA based on 2020's numbers. Consequently, the stock has pulled back over the past few weeks. Given these concerns are mostly factored into the stock, I see it as a good long-term buying opportunity.

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The company has a diversified, balanced business both geographically and operationally. In the short and long term, this TFSA stock has both organic and acquisition growth ahead. In fact, management is working out an aggressive $9 billion capital plan. To 2025, it expects to grow its rate base by a CAGR of 11.2%. Likewise, it believes it could achieve a net earnings per share CAGR of 8-10% over that same time frame.

Currently, the company pays a well-funded 4% dividend. For a diverse utility business with higher-than-average growth, Algonquin is a great stock to own and hold in a TFSA for a very long time.

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