TFSA Investors: Is Enbridge Stock a Good Buy Right Now?

Description

TFSA investors constantly search for top **TSX** stocks that can help build a substantial portfolio for retirement. **Enbridge** (TSX:ENB) (NYSE:ENB) is one stock that still looks cheap and could deliver big returns in the next few years.

TFSA benefits

The TFSA limit increased by $6,000 in 2021. This brings the maximum cumulative contribution space to $75,500.

Retirees use the TFSA to hold top dividend stocks as sources of tax-free income. The full value of dividends can be removed, and the earnings are not counted by the CRA towards net world income used to determine potential OAS clawbacks.

Investors who are in the early part of their careers benefit from the TFSA as well. The TFSA provides great flexibility when you need to tap the funds for an emergency.

Younger investors might also decide to use the TFSA as their primary investing fund and save RRSP contribution room until they are in a higher marginal tax bracket. The RRSP contributions reduce taxable income, so the impact is greater at the top end of the earnings scale.

Best stocks for a TFSA portfolio

Industry leaders with long track records of dividend growth tend to perform well over time. These stocks are attractive for both income investors and those who want to use the dividends to buy additional shares and harness the power of compounding.

Let’s take a look at Enbridge to see if this top TSX dividend stock deserves to be on your TFSA buy list.

Why Enbridge stock deserves to be on your TFSA radar

Enbridge saw volumes drop on its large oil pipeline network last year amid a crash in fuel demand. The company moves roughly 25% of the oil produced in Canada and the United States.

As COVID-19 vaccinations become more widespread, government travel restrictions should start to ease. That will boost demand for jet fuel. Companies will also move staff back to offices in the coming months. This means commuters could soon hit the highways again and drive up gasoline sales.

Enbridge transports oil from producers to the refineries and charges a fee for providing the service. The pipelines are like massive toll booths. It costs a lot of money to build them, but once the assets are in place, they become cash machines. Opposition to new major pipelines hurts Enbridge's organic growth prospects, but it also makes the existing assets more valuable.

Enbridge continues to find smaller add-on projects within the existing assets base. The energy infrastructure giant also has the financial clout to grow through acquisitions.

Enbridge's natural gas and renewable energy assets held up well last year and helped offset the downturn on the oil pipeline side of the business. This allowed the board to raise the dividend, despite a challenging environment. Ongoing distribution hikes should continue in line with anticipated growth in distributable cash flow of 5-7% per year.

Should you buy Enbridge stock now?

At the time of writing, Enbridge stock appears undervalued. The shares trade near $45 compared to $56 in early 2020. Investors who buy now can pick up a 7.3% dividend yield.

Long-term shareholders have done well with Enbridge. A $10,000 investment in the stock 25 years ago would be worth $295,000 today with the dividends reinvested.

If you have some cash sitting in your TFSA, it might be a good idea to add Enbridge to the portfolio while the stock is out of favour.

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aswalker