TFSA Investors: 2 Top Canadian Dividend Stocks to Buy in April 2021

Description

Tax-Free Savings Account (TFSA) investors with some cash on the sidelines want to know which top Canadian dividend stocks might still be undervalued.

Why Enbridge stock still appears cheap for TFSA income investors

Investors who use their TFSA to generate regular tax-free income might want to buy **Enbridge** (TSX:ENB)(NYSE:ENB) stock while it remains out of favour. The energy infrastructure giant trades near $47 per share compared to $56 before the pandemic. At the current share price investors can pick up a 7% dividend yield and simply wait for the stock to drift higher.

Once international travel restrictions ease, airlines will restart routes and ramp up capacity. This will boost oil demand as refineries require more crude oil feedstock to produce jet fuel. At the same time, businesses will start to move employees back to the office, which will drive up gasoline demand. The huge shift from the city core to the suburbs in the past year might translate into greater vehicle use than before the pandemic as more people will hit the highways and travel greater distances to get to work.

In its December report, the International Energy Agency (IEA) predicted global gasoline demand would recover to near-2019 levels by the end of 2021.

Enbridge transports about 25% of the oil produced in Canada and the United States. Before the pandemic the oil pipeline network typically operated near capacity.

In the meantime, the natural gas transmission, storage, and distribution assets continue to generate steady cash flow. Enbridge also has a growing renewables group with solar, wind, and geothermal assets.

The board raised the dividend for 2021 marking the 26th straight annual increase. Investors should see distribution growth continue. In the Q4 2020 report Enbridge indicated it has a $16 billion secured capital program on the go, of which $10 billion should go into service in 2021.

Distributable cash flow (DCF) is expected to increase by 5-7% per year through at least 2023. Dividend hikes should be in the same range.

Why BCE deserves to be on your TFSA buy list for dividend income

BCE (TSX:BCE)(NYSE:BCE) is a long-time favourite among retirees and other income investors who want generous and reliable dividends from a stock that they can simply buy and forget for years.

The company enjoys a wide competitive moat in the Canadian communications industry and has the financial clout to make the investments needed to protect its position. BCE continues to roll out its fibre-to-the-premises program and is ramping up the expansion of its 5G network. The arrival of 5G opens up new revenue opportunities for the communications giant.

BCE trades near $58 per share and provides a solid 6% dividend yield. The stock traded at close to $65 early last year, so there is decent upside potential once COVID-19 restrictions ease. Roaming fees should bounce back when people start to travel.

The stock trades at 23 times earnings. That looks cheap compared to 26.5 times earnings investors currently pay to buy **Telus**.

BCE generates adequate free cash flow to support the dividend. Investors should see the payout continue to increase in line with free-cash-flow growth.

The bottom line

Enbridge and BCE are industry leaders with attractive dividends. The stocks appear reasonably prices in an expensive market and offer above-average yields.

If you are searching for top Canadian dividend stocks for a TFSA portfolio, these names deserve to be on your radar.

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