TFSA Investors: 2 Cheap Dividend Stocks I'd Buy Now

Description

The rally off the 2020 stock market crash sent many top dividend stocks back to their previous highs, but income investors can still find stocks with great yields at reasonable or undervalued prices.

Why Enbridge stock deserves to be on your TFSA buy list

Enbridge (TSX:ENB)(NYSE:ENB) trades near $46 per share and provides a 7% dividend yield. The stock price already enjoyed a nice bounce off the 2020 low but still trades way below the $56 mark it hit before the pandemic.

A slow recovery in oil demand and growth headwinds are mostly to blame for the ongoing weakness in the stock price, but the market might be too negative on Enbridge's outlook. The company moves about 25% of all the oil produced in Canada and the United States. As air-travel restrictions ease and commuters start heading back to the office, jet fuel and gasoline demand should rebound. That means refineries will require more crude oil feedstock from the producers.

Enbridge's natural gas and renewable energy assets helped offset the tough year for the oil pipelines. As a result, Enbridge fared reasonably well in 2020 and the board raised the dividend by 3% for this year. That's below the historic average for the company, but a good sign considering the upheaval in the industry.

Looking ahead, Enbridge expects its $16 billion capital program to drive 5-7% annual growth in distributable cash flow over the medium term. Dividend increases should be in the same range. That's good news for TFSA income investors who simply want to collect an above-average yield.

The stock might take a while to get back to $50, but you get paid well to wait.

Great-West Lifeco still appears cheap

Great-West Lifeco (TSX:GWO) owns insurance and wealth management businesses in Canada the

United States and Europe.

The stock trades around $34 per share at the time of writing compared to $35 before the pandemic, so it has recovered most of the losses it sustained during the crash. At one point last May, investors had a chance to grab the stock for $20.

Despite the big rally, Great-West Lifeco still only trades at roughly 11 times earnings. That's quite a discount compared to the big Canadian banks that currently command multiples of 12.5-14.5. The banks are riding a red-hot housing market to strong results. At some point, interest rates will start to rise, and there is a risk house prices could see a steep decline. Depending on the duration and severity of the shock, the banks might be in for a rough spell at some point in the next few years.

Great-West Lifeco's dividend currently provides a yield of 5%. The stock should continue to drift higher, and it wouldn't be a surprise to see it hit $40 by the end of 2021. If you are searching for a high-yield financial pick that isn't a bank, Great-West Lifeco deserves to be on your TFSA radar.

The bottom line on TFSA income stocks

Enbridge and Great-West Lifeco are top-quality stocks that still appear undervalued and pay above-average dividends. The payouts should continue to grow at a steady pace, and you get a shot at some decent upside in the share prices.

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2. TSX:ENB (Enbridge Inc.)
3. TSX:GWO (Great-West Lifeco Inc.)

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Date
2025/08/23

Date Created
2021/04/12
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