1 Top Canadian Stock to Start a Tax-Free Pension

Description

Canadian savers can use their TFSA to build significant stock portfolios that provide a steady stream of tax-free income in retirement.

TFSA benefits

The Canadian government created the TFSA in 2009 to help people put extra cash away for a variety of savings goals, including for retirement. Since its inception, the TFSA limit has grown every year. It increased by $6,000 in 2021, and the maximum cumulative space now totals $75,500. That's a decent size to set up a self-directed pension to go along with RRSP investments and government or company pension plans that will be available down the road.

A TFSA provides good flexibility. Funds can be removed at any time without a penalty. The contribution room is restored in the next calendar year. This is helpful if you get caught short of cash for an emergency and don't want to raid the RRSP to cover surprise expenses.

All interest, dividends, and capital gains earned inside the TFSA remain beyond the reach of the CRA. That is important for retirees who collect Old Ages Security (OAS) pensions. Any earnings removed from the TFSA do not get counted towards the net world income calculation that the CRA uses to determine the OAS clawback.

Let's take a look at one top Canadian dividend stock that has recently pulled back to an attractive price and offers a great yield for a retirement portfolio.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) operates oil pipelines, natural gas pipelines, natural gas storage, natural gas utilities, and renewable energy assets. The company gets most of its revenue from regulated assets, making cash flow generally reliable. Changes in commodity prices have a limited direct impact on cash flow.

That being said, the pandemic put some pressure on throughput along the oil pipeline network last year, as fuel demand dried up and refiners reduced orders for crude oil feedstock used to make products such as jet fuel and gasoline. This part of the business is now rebounding, as fuel demand ramps up on the removal of travel restrictions.

Dividend

Enbridge's natural gas and renewable energy operations helped offset the oil pipeline hit and allowed Enbridge to boost its dividend last December. The annualized payout in 2021 of $3.34 per share provides a 7% yield at the current share price near $47.50. That's well off the $56 price the stock fetched before the pandemic. As the Canadian and U.S. economies recover, the stock should drift back to that level.

Enbridge is targeting distributable cash flow growth of 5-7% per year through 2023. Dividend increases should be in the same range.

Outlook

Enbridge's Q2 2021 results show the recovery in fuel demand is already underway. Global jet fuel demand in 2021 is expected to be 21% above the 2020 level. Gasoline demand is projected to be 11% higher than last year. North American refinery utilization is already getting close to pre-pandemic levels.

The bottom line

Enbridge looks undervalued right now, and investors can pick up a great dividend yield for a TFSA retirement portfolio targeted at generating tax-free passive income.

If you have some cash to put to work and don't mind riding out a bit of volatility Enbridge deserves to be on your TFSA buy list at the current share price.

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