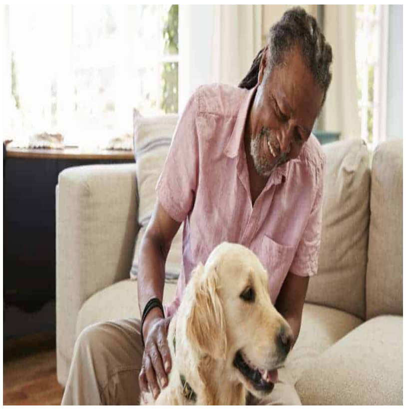

Retirees: 2 Reliable Dividend Stocks for TFSA Income

Description

Canadian pensioners are using their TFSA portfolios to hold leading dividend stocks that offer above-average yields. The recent pullback in some top Canadian stocks presents an attractive buying opportunity for a retirement fund focused on passive income.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a giant in the North America energy infrastructure industry. The company has a market capitalization of $100 billion at the time of writing and is responsible for the transportation of 25% of the oil produced in Canada and the United States.

Enbridge completed a strategic overhaul before the pandemic. Management monetized roughly $8 billion in non-core assets and streamlined the business by bringing four subsidiaries under the roof of the parent company. The transition to focus more on regulated assets helped Enbridge ride out the worst part of the pandemic and the improved balance sheet supported the dividend last year. In fact, Enbridge increased the distribution late in 2020, providing income investors with reassurance that the payout is safe.

Enbridge continues to find small growth opportunities across the asset base. A large portion of the capital program is focused on the natural gas transmission and utility businesses as well as the renewable energy division. Management is targeting distributable cash flow growth of 5-7% over the medium term. Dividend hikes should be in that range.

Enbridge has the size to make large acquisitions to drive additional growth. The stock appears cheap right now near $48.50 per share and provides a generous 6.9% dividend yield.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is another Canadian player with strategic importance for the oil and gas infrastructure networks located across Canada, the United States, and Mexico. The company's $100 billion in assets are heavily geared to natural gas. The firm also has power-generation facilities.

TC Energy's $21 billion capital program is expected to boost revenue and cash flow enough to support annual dividend hikes of 5-7% over the next few years. As with Enbridge, TC Energy has the financial clout to make strategic acquisitions to expand the business. TC Energy's stock trades near $59 per share at the time of writing compared to $65 earlier this year and $75 before the pandemic. The pullback looks overdone, and investors who buy now can pick up a 5.9% yield.

Risks

Government and public opposition to the construction of new major pipelines is a strong headwind for the energy infrastructure industry. However, this also makes existing pipeline networks more valuable. Consolidation is expected to continue in the coming years, and both Enbridge and TC Energy have the financial firepower to do deals.

Market valuations on the energy infrastructure assets might not show their true value right now. Even when a new pipeline is approved, the costs for materials and construction continue to rise. This should also support the value of current infrastructure.

The bottom line on TFSA income

Enbridge and TC Energy pay attractive distributions that offer above-average yields. Dividend growth should be in the 5% range per year, and the stocks appear undervalued today. Retirees in search of steady passive-income investments for their TFSAs might want to add Enbridge and TC Energy to their portfolios while the stocks are out of favour. An equal investment in each of the stocks would produce an average dividend yield of 6.4%. That's much better than any GIC!

CATEGORY

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Date
2025/09/01
Date Created
2021/08/25
Author
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