



TFSA Investors: 3 Dividend Champs for Tax-Free Income!

Description

One of the best ways to make passive income that grows over your life is to invest in Dividend Aristocrats. With a 15.4% total return, they have just about equaled the S&P 500's return, but with a much higher percentage of the return coming from dividend payouts.

For those who are unfamiliar, Dividend Aristocrats are stocks that have grown their dividend every single year for 25 years or more. For Canadian stocks, the definition is modified slightly. Because the TSX is much smaller than the U.S. equities markets, the sample size is smaller, and thus there are fewer 25-year growers to choose from. So, we go with five-year dividend growth for Canadian stocks.

Investing in Dividend Aristocrats is a surefire way to add some income to your portfolio. With that said, it's not the be all and end all of dividend investing. Sometimes very good dividend stocks suspend their payouts for a year or two, resulting in the loss of Aristocrat status. In this article, I will explore three quality dividend stocks — one a true aristocrat, the other two very close.

Enbridge

Enbridge ([TSX:ENB](#))([NYSE:ENB](#)) is a Canadian energy company whose stock yields 6.66% at today's prices. Its yield is already very high, and it has an incredible dividend-growth track record too. Over the last five years, the dividend has grown by about 9% annualized. Over 20 years, the dividend-growth rate has been even higher than that!

Enbridge's dividend growth is well supported by growth in the underlying business. Over the last five years, ENB's EPS has grown by 24% annualized. Pipelines are the cheapest way to transport oil and gas, so demand for Enbridge's services should remain strong. The pipeline industry is politically controversial — Joe Biden cancelled one Canadian pipeline project last year, and a U.S. governor is trying to shut down one of ENB's projects. However, Enbridge is mostly pushing ahead and winning the political disputes it finds itself involved in.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is [another energy stock](#) with a very high yield. SU's 4.98% isn't quite as high as ENB's, but it is pretty high. Moreover, Suncor Energy is currently experiencing very strong growth.

In its most recent quarter, Suncor brought in \$2.6 billion in operating cash flow, up 160%, and \$877 million in net income, up from a loss. In 2020, WTI futures went negative and gasoline prices collapsed. That wreaked havoc on Suncor's business, which ran losses four quarters in a row. Later, however, the company started to rebound, when oil prices rose. Today, Suncor is standing stronger than ever, with oil prices approaching levels not seen since 2018. Q4 will probably be another strong quarter for SU, which now has the green light to crank out profits.

TD Bank

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is a bank stock that yields 3.57% as of this writing. Its yield is nowhere near as high as the other two stocks on this list, but it has a lot of dividend-growth potential.

TD's most recent dividend hike was a whopping 13%, and the five-year annualized dividend-growth rate is 8.5%. This stock technically isn't a Dividend Aristocrat, because the Office of the Superintendent of Financial Institutions (OSFI) [banned bank dividend hikes in 2020](#) to help with financial stability. TD thus didn't see a hike in 2020. This year, TD just made up for the lost year by hiking its payout more than normal. So, now we've got the same result we would have had if TD hiked its dividend in 2020. And, with interest rate hikes on the horizon, there is potential for improved profitability in 2022.

CATEGORY

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:ENB (Enbridge Inc.)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TD (The Toronto-Dominion Bank)

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