1 Safe, Outperforming TSX Stock for TFSA Investors

Description

Conservative investors often look for low- to moderate-risk stocks for the long term. Here is a stock with a proven track record along with a stable dividend profile. Investing in this stock through your Tax-Free Savings Account (TFSA) should maximize compounding benefits, with tax-free capital gains and dividends.

For 2022, the contribution limit in your TFSA stands at $6,000. If you have never invested in the TFSA since its inception in 2009, the accumulated limit is $81,500.

A top TSX stock for your TFSA

I recommend a relatively slow-moving stock with moderate return potential: **Intact Financial** (TSX:IFC). It is a $32.3 billion leading property and casualty insurer in Canada.

The company collects $20 billion in total annual premiums and boasts a leading 21% market share in Canada. Through the acquisition of RSA in 2020, the company expanded its global presence in Ireland and the United Kingdom.

Intact stock has consistently outperformed the **TSX Composite Index** in the last five-year and 10-year horizon. It has returned 88% and 305% in these periods, including dividends, respectively.

Intact has exhibited superior financial growth in the last decade, although it's in a relatively risky industry. Its revenues increased by 10% CAGR, while earnings expanded by a 16% CAGR in the last 10 years.

Stable earnings and dividends

The earnings stability enabled the insurer to pay steady dividends to its shareholders all these years. IFC currently yields 2.2%, which is lower than TSX stocks at large. However, notably, Intact has managed to grow its dividends by 11% compounded annually in the last 16 years.

Intact Financial looks well placed for the future because of its scale, diversified business mix, and leading market share. Pragmatic underwriting and its multi-channel distribution strategy will likely bode well for its earnings growth in the long term.

Intact has returned 30% in the last 12 months, beating TSX stocks at large. It is currently trading at $184, close to its all-time highs. The stock looks attractive, even if it is currently trading at record levels.

It is trading 14 times its earnings and looks fairly valued. It will likely continue to trade strong, driven by solid earnings growth and attractive valuation.

Diversify

It would not be prudent to invest all your investable surplus into just one stock. Another stock with a low-risk and decent return potential that investors can consider is **Enbridge** (TSX:ENB)(NYSE:ENB). ENB stock yields 6.4% at the moment — one of the highest yields on the TSX.

Enbridge also earns stable cash flows with its huge energy pipeline network. In addition, most of its contracts are long-term and fixed-fee ones that offer good visibility about its future earnings.

Both of the above stocks could be intelligent picks for your TFSA. This is because the capital appreciation and dividend income generated within the TFSA will be tax-free for qualified investors, even at withdrawal.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:IFC (Intact Financial Corporation)

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