You Can Get up to $4,890 a Year From This Energy Stock Tax Free!

Description

Looking to generate tax-free dividend income in your TFSA?

If so, energy stocks are among the best plays out there for you to consider. Not only are oil prices driving energy stocks higher this year, but many of them still have high dividend yields. Normally, a higher stock price means a lower dividend yield. But Canadian energy stocks were beaten down so badly in 2020 that they still have high yields, even after all the price appreciation we've seen. So, they can make a worthy addition to a diversified TFSA income portfolio. In this article, I will explore one TSX energy stock that can pay up to $4,890 tax free in a TFSA.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a pipeline stock with a 6% yield. If you invest $81,500 (the max cumulative TFSA space) at a 6% yield, you get $4,890 back in annual tax-free income. That's a nice little payout. And being tax free, it's the equivalent of a much higher amount of taxable income.

How does Enbridge make the money that it sends to you in the form of dividends?

It mainly transports oil. It owns a large pipeline network that spans across North America. It uses that network to ship oil for its clients. It also has a smaller natural gas utility business. Some of Enbridge's operations are impeded by regulatory issues. It needs extensive permissions in order to build pipelines on new land; sometimes it doesn't get them or has its projects challenged in court. This has been a big problem for Enbridge in the U.S., where its infrastructure projects — even just repairs — have often become controversial. There was even one U.S. governor who tried to kick Enbridge out of the State of Michigan, but that never went anywhere.

How safe is the dividend?

Having explored the basics of Enbridge's business, it's time to zoom in on the dividend itself. A high dividend yield means nothing if the company paying it can't afford to keep it up. So, we need to look at how well covered Enbridge's dividend is.

In the most recent 12-month period, ENB earned $2.27 per share.

Its dividend was $2.64.

That gives us a payout ratio of 1.16, or 116%. That would seem to suggest an unsustainable dividend, because it implies that ENB is paying out more in dividends than it's bringing in in profit. But looks can be deceiving. While ENB's GAAP earnings don't cover its dividend, its cash flows are a different matter.

In the most recent 12-month period, ENB had $7.3 billion in cash from operations and two billion shares. That gives us $3.65 in operating cash flow per share. So, the cash flow payout ratio is only 72%. That's more than enough for Enbridge to continue paying — even raising — its dividend for the foreseeable future. Of course, a deterioration in its business performance would change all that. But in this environment of oil scarcity and energy shortages, ENB's business looks safe as milk. So, the $4,890 in tax-free TFSA income you can get from this stock isn't particularly risky.

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