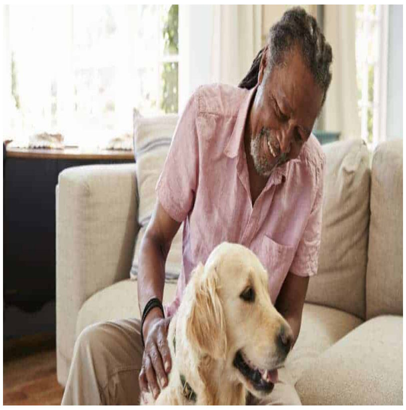

TFSA Retirees: These 2 Blue-Chip Stocks Will Help You Generate Passive Income

Description

Canadians nearing retirement should look to buy-and-hold stocks that have the potential to generate cash flows across business cycles. The risk appetite of retirees is much lower compared to younger individuals. So, it makes sense to invest in companies that have strong fundamentals and the ability to thrive in good times and bad.

Generally, blue-chip stocks are an ideal bet for retirees, as they consistently outpace inflation rates, generate steady gains, and also pay investors dividends, allowing them to create a passive-income stream. Let's take a look at two such blue-chip stocks retirees should buy today.

Royal Bank of Canada

The largest Canadian company by market cap, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is valued at $192 billion. In fiscal Q1 of 2022 which ended in January, Royal Bank of Canada's pre-provision pre-tax earnings grew 10% year over year on the back of client-driven volume growth as well as strong performance across verticals, such as wealth management and investment banking.

Its return on equity stood at 17.3% and, combined with a robust capital ratio, the financial giant could deploy capital efficiently to support the expansion of its customer base. In Q1, Royal Bank paid shareholders dividends of $3 billion, indicating a forward yield of 3.5% and a payout ratio of 72%. In the last five years, Royal Bank of Canada has increased dividends at an annual rate of 6.7%.

Further, it ended Q1 with a CET1 ratio of 13.5%, which indicates it has excess capital amounting to $13 billion, providing the company with enough flexibility to accelerate capital deployment for organic growth opportunities.

Enbridge

One of the world's largest midstream companies, **Enbridge** (TSX:ENB)(NYSE:ENB) offers investors a forward yield of 5.9%. Similar to most other stocks part of the energy sector, Enbridge has derived outsized gains in the last year due to rising oil prices.

Enbridge has increased dividends for 27 consecutive years, making it a Dividend Aristocrat. In the last five years, these payouts have risen at an annual rate of 7.1%.

Despite its exposure to oil, Enbridge has a low-risk business model. The company's cash flows are stable and predictable as 98% of its top line comes from cost-of-service agreements tied to long-term contracts. Further, 95% of its customers have investment-grade credit ratings.

Enbridge continues to invest in capital expenditures, which will expand its base of cash-generating assets and drive cash flow per share higher. It expects to grow cash flows between 5% and 7% each year, through 2024, which should support dividend increases in the future.

Analysts remain optimistic about ENB stock as the company is forecast to expand adjusted earnings at an annual rate of 9.25% in the next five years. Right now, ENB stock is trading at a reasonable forward price-to-earnings multiple of 19 given its earnings forecast and tasty dividend yield.

The Foolish takeaway

If you want to benefit from tax-free gains, you can hold these stocks in your TFSA (Tax-Free Savings Account). The maximum cumulative contribution limit in the TFSA stands at $81,500. So, if you invest $25,000 in each of the two stocks, you can generate $2,350 each year via dividends, without paying taxes to the Canada Revenue Agency.

CATEGORY

1. Dividend Stocks
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