TFSA Investors: Steady Utility Stocks to Buy Now and Cash In for Life

Description

The Tax-Free Savings Account (TFSA) is ideal to hold a portfolio of dividend stocks, as it is a tax-sheltered registered account. Dividend stocks enable investors to create a recurring revenue stream and benefit from long-term capital gains. Further, any income generated in a TFSA is exempt from Canada Revenue Agency taxes.

Keeping these factors in mind, let’s look at three top utility stocks Canadians can hold in their TFSA. Utility companies are recession resistant and produce cash flows across business cycles. You can withdraw the dividends distributed by these TSX stocks or reinvest them to benefit from compounded gains.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is one of the largest Canadian companies on the TSX, which has increased its assets from $390 million in 1987 to $60 billion currently. Its affiliated companies include 10 electric and gas operations that serve more than three million customers in Canada, the U.S., and the Caribbean.

Fortis has increased dividends for 48 consecutive years and is expected to increase payouts by 6% through 2025. It pays annual dividends of $2.14 per share, indicating a forward yield of 3.7%.

The company continues to expand its base of cash-generating assets and will invest close to $4 billion in the next five years in clean energy, driving future cash flows higher.

Fortis stock has returned 13% to shareholders annually over the last two decades, easily outpacing the broader markets.

Emera

From its beginnings as a single utility located in Nova Scotia, **Emera** (TSX:EMA) is now a utility giant with over $34 billion in assets. The company serves 2.5 million customers in North America, and its portfolio of high-quality utilities should allow Emera to deliver long-term value to shareholders.

Emera pays investors annual dividends of $2.65 per share, suggesting a forward yield of 4.3%, which is quite tasty. In the last 30 years, Emera has increased dividends at an annual rate of 13.5%, making it extremely attractive to income-seeking investors.

Emera stock is valued at 20 times forward earnings, and the stock is trading at a discount of 9% compared to consensus price target estimates. After accounting for its dividend yield, total returns might be closer to 13% in the next year.

Canadian Utilities

The final stock on my list is **Canadian Utilities** (TSX:CU), a company that has increased its dividend every year for the last 50 years. It is the longest streak of dividend increases for any Canadian company. Canadian Utilities aims to grow dividends in line with its sustainable earnings, which are linked to its regulated and contracted investments.

Canadian Utilities emphasized that its contracted and regulated earnings base is the foundation for consistent dividend increases. Between 2022 and 2024, the company expects to invest $3.5 billion in regulated utility and commercially secured energy infrastructure projects.

This investment should drive earnings and cash flows higher, and $3.3 billion will be deployed on regulated utilities.

Given annual dividends of $1.78 per share, Canadian Utilities offers investors a dividend yield of 4.4%.

The Foolish takeaway

These blue-chip companies will create a passive-income stream for investors. An investment of $10,000 in each of the three stocks will help investors generate $1,230 in annual dividend payments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:EMA (Emera Incorporated)
4. TSX:FTS (Fortis Inc.)

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