The 3 Best Dividend Stocks for Your TFSA

Description

When buying dividend stocks to generate a passive income, the ideal place to stash them is naturally in your TFSA. You can generate tax-free income in your TFSA. Or if you are not planning to cash out the dividends, you can choose to reinvest them in a DRIP to grow the size of your stake in a company, even within your TFSA, if you have the contribution room. To maximize the return impact from your investments, you can choose dividend stocks offering decent growth potential.

Aviation services

Exchange Income Fund (TSX:EIF) has a diversified portfolio of aviation businesses. Over the year, the company has made numerous acquisitions in aviation-related manufacturing and service companies, and aviation and aerospace companies. Its holdings include multiple regional airlines in Canada and other countries that offer air travel, cargo, and air ambulance services.

Despite its highly diversified portfolio, the stock suffered during the COVID period, like most airline businesses. However, unlike them, the stock has fully recovered and is currently trading at a 15% premium to its pre-pandemic peak.

Assuming it will continue on this bull market trend and keep growing as it did before the pandemic, EIF stock can offer its investors good capital appreciation potential. The dividends are also quite attractive, especially at its 4.7% yield.

A REIT

One of the best dividend stocks you can buy for a good mix of dividends *and* growth from the real estate sector is **Granite REIT** (TSX:GRT.UN). The REIT is currently trading at a discount of about 21%, and it's also a bit undervalued. Thanks to the discount, the yield has risen to about 3.85%.

GRT.UN is also a powerful growth stock. The price appreciation has been around 109% in the last decade, and overall returns (including dividends) are over 244%. The REIT has an international portfolio of light industrial, logistics, and warehouse properties. These properties are highly in-demand thanks to the e-commerce boom, which may be one of the catalysts behind Granite's growth potential.

A utility stock

As a utility stock, **Hydro One** (TSX:H) offers far more stability and consistency compared to volatile and cyclical stocks. The stability doesn't get in the way of the stock's growth, which has risen 69% in the last five years alone. For dividend investors, the most attractive part of the stock is its status as a steady dividend aristocrat. H stock has been offering financially stable payouts since its first year.

Hydro One is more than just a utility stock. It dominates the rural residential consumer market in Ontario and has 1.5 million consumers. That's an incredibly stable market because there is little competition, and rural consumers tend to stay put. If the housing market drives more Ontario residents out of high-density population areas, Hydro One may see its number of consumers rise at a steady pace.

Foolish takeaway

These three dividend stocks can be a powerful addition to your TFSA portfolio. They can help you generate decent dividend income as well as appreciate the capital you have invested in them at a steady pace.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:H (Hydro One Limited)

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