TFSA: Investing $8,000 in Enbridge Stock Today Could Bring $500 in Tax-Free Dividends

Description

Investing in the Tax-Free Savings Account, or TFSA, can help Canadian residents earn tax-sheltered income for life. The TFSA can be used to hold a wide variety of financial instruments, including bonds, stocks, mutual funds, and exchange-traded funds. Any income generated in this registered account is exempt from Canada Revenue Agency taxes, making the TFSA one of the most popular accounts in Canada.

Hold dividend stocks in your TFSA

Dividend stocks are companies that distribute a portion of their profits to shareholders. So, companies need to generate consistent profits to pay investors a dividend. Typically, dividend-paying companies are part of mature business segments, allowing them to report predictable cash flows across market cycles.

In addition to dividend payouts, long-term investors also derive returns from capital gains due to stock price appreciation. For instance, if a company has a dividend yield of 4% and its share price increases by 11% in a year, total annual returns will be 15%.

And, as stated above, if the dividend stocks are held in a TFSA, your dividends and capital gains will both be exempted from taxes.

COMPANY	RECENT PRICE	NUMBER OF SHARES	DIVIDEND	TOTAL PAYOUT	FREQUENCY
Enbridge	$53.06	151	$0.888	$134	Quarterly

With these factors in mind, let’s see how TFSA holders can invest $8,000 and earn $500 each year in tax-free dividends.

Enbridge is a high-yield dividend stock on the TSX

One of the most popular dividend stocks on the TSX, **Enbridge** (TSX:ENB) offers shareholders a forward yield of 6.7%. Valued at a market cap of $107 billion and an enterprise value of almost $200 billion, Enbridge is an energy infrastructure giant with multiple cash-generating assets.

Enbridge operates in the midstream space and distributes oil and natural gas across North America. It also aims to gain traction in the clean energy business, with the renewable segment accounting for 4% of EBITDA (earnings before interest, taxes, depreciation, and amortization) in recent quarters.

Enbridge is part of the cyclical energy sector but is relatively immune to fluctuations in commodity prices, as the company's cash flows are backed by long-term contracts, which, in turn, are indexed to inflation.

Its predictable earnings have allowed the energy heavyweight to increase dividends at an annual rate of 11.3% in the last two decades. In this period, Enbridge has witnessed the dot-com bubble, the great financial crash, the ongoing pandemic, and an extended phase of multi-year high inflation.

Investors often underestimate the power of investing in dividend stocks. Since February 2003, Enbridge stock has gained "just" 408.4%. Comparatively, the TSX index has returned 244% in this period. But after accounting for dividends, Enbridge's returns in the last 20 years have climbed to 1,008%, dwarfing the TSX index even more, which is up 470%.

Will Enbridge pay investors a dividend forever?

While dividend payouts are not a guarantee, Enbridge is unlikely to cut or suspend these payments in the near term. It continues to invest in capital expenditures, allowing the company to expand its cash flows between 3% and 5% through 2024.

An investment of $8,000 in ENB stock right now will allow you to earn $536 in annual dividends each year. In case these payouts increase by 7% annually, your dividend payments will double to more than $1,000 in the next 10 years.

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Date
2025/06/27
Date Created
2023/02/19
Author
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