2 Top Oversold Canadian Dividend Stocks for Your TFSA Retirement Fund

Description

The pullback in equity markets is giving Canadian investors an opportunity to pick up some of the country's top companies at reasonable prices.

When stocks are held inside a TFSA, the full value of the dividends can be invested in new shares as well as any capital gains that might occur down the road when the stocks are sold are tax-free.

That's right: all the upside goes straight into your pocket.

Let's take a look at **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see why they might be interesting picks.

CIBC

CIBC is often viewed as the riskiest pick among its peers due to the bank's large exposure to the Canadian housing market.

As interest rates rise, some mortgage holders will likely default, but most analysts expect a gradual downturn in the market as opposed to a major crash. CIBC's mortgage portfolio is capable of riding out some pretty tough times, so the concerns might be a bit overblown.

Management is working hard diversify the company's revenue stream, and a series of deals in the United States over the past year should go a long way toward meeting that objective.

The stock is down from $123 a month ago to below $113 at the time of writing. That puts the trailing 12-month price-to-earnings ratio at close to 10, which is significantly below the other big Canadian banks — and arguably a touch too negative.

More downside could certainly be on the way, but investors with a buy-and-hold strategy might want to start nibbling. At the current price, you can collect a solid 4.6% dividend yield while you wait for the market to recover.

Fortis

Fortis owns natural gas distribution, power generation, and electric transmission businesses in Canada, the United States, and the Caribbean.

The company gets most of its revenue from regulated assets, which means cash flows should be reliable and reasonably predictable. This is a big reason why the company is very popular with income investors.

Fortis recently made some large acquisitions in the United States, and those businesses are performing well. In addition, the company has a $14.5 billion capital plan set for the next five years, which should significantly boost the rate base.

As a result, management is targeting dividend growth of at least 6% per year through 2022. The company has raised the payout every year for more than four decades, so investors should be comfortable with the guidance.

The stock is down from $48 in November to $41 at the time of writing. Investors who buy the stock at this price can pick up a 4% dividend yield with years of projected distribution growth on the horizon.

Is one more attractive?

Both stocks appear to be getting oversold and pay quality dividends that should be very safe. At this point, I would probably split a new investment between the two companies.

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1. Dividend Stocks
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2. NYSE:FTS (Fortis Inc.)
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