2 Top Dividend Stocks to Stash in Your TFSA

Description

When you're short-listing stocks for your Tax-Free Savings Account (TFSA), Canadian banks should be at the top of your list.

There are many reasons that support my bullish call for the country's lenders, but the most important one is that these financial services companies have solid franchises that produce hefty cash flows, providing stability and growth to your income portfolio.

Canadian banks, on average, distribute between 40% and 50% of their net income in dividends and grow them regularly. After the recent market weakness, some top banking names have become more attractive than others. Let's have a look which lender offers a better value to your TFSA.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is the smallest bank among the top five lenders, but it offers the highest dividend yield.

Its stock generally underperforms other lenders due to its exposure to the nation's frothy housing market. Short sellers love CIBC stock due to the size of its mortgage lending, which is the largest among the top Canadian lenders. It has more uninsured mortgages in Toronto and Vancouver — Canada's two hottest real estate markets — than any other bank.

But the Canadian real estate market is stabilizing after the new mortgage rules and tax on foreign speculators. CIBC's latest earnings report shows that the bank's balance sheet is still strong with no sign of distress.

In the first-quarter earnings report, CIBC raised its dividend, as it reported better-than-expected results, helped by strong results at home and south of the border. The bank has increased its quarterly payment to common shareholders by three cents to $1.33 per share.

Trading at $112.60, CIBC stock is down 8% this year. That pullback offers a good entry point to TFSA investors, especially when its dividend yield, at 4.7%, looks extremely attractive, and its forward P/E multiple is touching the single digits.

Royal Bank of Canada

If you want to take a less-risky approach while investing in Canadian banks, then **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is your best bet. RBC is the nation's largest bank with more than $1.2 trillion in total assets.

The bank has very diversified operations with very strong presence in the U.S. after its acquisition of City National Bank in 2015. It has the largest sales force in Canada and is the market share leader or runner-up in all key product categories.

RBC has paid dividend every year since 1870. In its first-quarter earnings, RBC surpassed analysts' expectations for profitability and delivered another dividend hike to investors, taking its annual payout $3.79 a share.

Trading at $97.20 and with an annual dividend yield of 3.9%, RBC is a great buy-and-hold stock which is well positioned to provide regular dividend income. During the past five years, RBC has delivered about 58% in total returns to its investors.

The bottom line

Canadian banks can be a great addition to your TFSA if you plan to buy their stocks for the long term. These lenders slowly power your portfolio with regular payout hikes. It's better to keep these names in your portfolio once you have made a decision to buy and avoid regular trading.

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Date
2025/09/11
Date Created
2018/04/29
Author
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