2 Canadian Dividend Stocks That Could Quickly Enrich Your TFSA

Description

When you're trawling the TSX index for stocks to line your TFSA (or RRSP, for that matter), a mix of sizable dividends, growth, defensive stats, and a good track record makes for a strong pick. Looking through the data today, there are a few obvious choices as well as a few maybes. Are the two stocks below worth stashing in your savings account or retirement plan? Let's see how the numbers add up before you commit to buying shares on the TSX index.

IGM Financial (TSX:IGM)

One of the best ways to how to start investing in Canadian stocks is to go for tried-and-tested financial stocks. These usually have healthy balance sheets and a proven track record when it comes to dividend payments. So, when you see IGM Financial's dividend yield of 6.85% matched with a borderline debt level of 41% of net worth, you know you're on the right track.

But is IGM Financial stock a solid buy? Going back to track record, a negative one-year past earnings growth of -18.6% may be a cause for concern; indeed, its five-year average of -3.5% does little to assuage that negativity. A PEG ratio of 2.4 times growth hints that all is not exactly as it should be on the valuation front, meanwhile, and though there has been more inside buying than selling in the last three months, it has not occurred in any significant volume.

Quality indicators are likewise a bit of a mixed bag at the moment for this stock. While an EPS of $2.65 is positive, an ROE of 14% shows a fairly inefficient use of shareholders' funds in the past year, and a 5.2% expected annual growth in earnings is not indicative or significant progress.

Fortis (TSX:FTS)(NYSE:FTS)

Having gained 1.14% in the last five days, we can already see that Fortis appears the healthier stock. Its beta of 0.29 relative to the North American electric utilities industry indicates low volatility, making it just right for a "forever" stock, while a 5.8% expected annual growth in earnings just about nudges out the competition above (although, since the stocks belong to distinct industries, they could be held in tandem without overexposure).

Compare this with the value stats for IGM Financial: that stock is one of the most undervalued financials on the TSX index in terms of earnings, with value indicated by a P/E ratio of 1.4 times earnings. Taking a per-asset view, though, we can that IGM Financial's P/B ratio of 1.8 times book — and that's almost double what the asset is worth on paper.

Where Fortis comes through is perhaps on share price stability; this isn't a stock that's going to crash alongside the market should a broad economic downturn darken the investment landscape. However, as noted above, a mix of both stocks could give investors some diversification along with some passive income.

The bottom line

Again, with Fortis valuation is not entirely straightforward, with a P/E of 20.4 times earnings and P/B of 1.4 times book undercut by a share price that's currently discounted by 25% against the future cash flow value; the P/B is probably the best indicator of intrinsic value here. Meanwhile, a dividend yield of 3.83% is on offer, and with only a little over a week until it trades ex-dividend, TSX index investors may have to make a quick decision.

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vhetherington