# TFSA Investors: Should You Buy Fortis (TSX:FTS) or CIBC (TSX:CM) for Passive Income?

## Description

Canadian retirees and other income investors are using their TFSA to generate tax-free earnings.

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The TFSA is in its 10th year, and the cumulative contribution room has increased to the point where a couple now has up to $127,000 in space to generate income that will not be taxed. In addition, the payouts from the TFSA are not used to determine potential OAS clawbacks.

Let's take a look at two dividend stocks that might be interesting picks right now for an income-focused TFSA.

## Fortis

**Fortis** (TSX:FTS)(NYSE:FTS) is a utility company with $52 billion in assets primarily located across Canada and in the United States. It also has facilities in the Caribbean.

The company's largest acquisitions in recent years included the US$11.3 billion takeover of Michigan-based ITC Holdings, an electric transmission firm, and the US$4.5 billion purchase of Arizona-based UNS Energy, which owns power generation and natural gas distribution assets.

Fortis is currently spending $18.3 billion over five years on capital projects that will significantly boost the rate base and support ongoing dividend increases of about 6% per year.

Revenue mostly comes from regulated assets, which means cash flow should be reliable. Fortis has raised its dividend for 46 straight years. The existing payout provides a 3.5% yield.

The stock tends to hold up well when the overall market hits a rough patch and should be considered when building downturn protection into a portfolio.

# CIBC

**Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) raised its dividend when it reported improved fiscal Q3 2019 results. The bank had a string of weaker-than-expected quarters due to challenges in the Canadian housing market caused by rising mortgage rates.

CIBC relies heavily on the residential real estate sector, and the slowdown had an impact. In the past several months, however, bond yields have declined to the point where banks could lower mortgage rates to more attractive levels. The Bank of Canada just decided to hold interest rates steady, but pressure is mounting for a cut in the coming months.

The negative rate trend should provide support for the housing recovery, and that bodes well for CIBC over medium term.

The company has made good progress in diversifying its revenue stream through more than US$5 billion in acquisitions south of the border. Additional deals could be on the way, and that would provide an extra hedge against potential trouble in the Canadian economy.

CIBC trades at just 9.9 times trailing earnings, and the divided yield is an attractive 5.1%.

A global economic downturn would likely hit CIBC harder than Fortis, but the fear that is built into the share price right now might be overdone.

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## Is one a better bet?

Fortis and CIBC are solid companies with growing dividends and should both be attractive picks for an income-focused portfolio today. If you only buy one, I would probably make CIBC the first choice. The stock appears cheap right now, and you get a great yield.

However, investors who simply want to buy a stock and forget about it for two decades might prefer to make Fortis their top pick.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)

4. TSX:FTS (Fortis Inc.)

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