Retiree Investors: 2 Cheap Dividend Stocks to Boost TFSA Income

Description

Canadian seniors are taking advantage of their TFSA contribution space to invest in high-quality dividend stocks.

The pullback in the stock market is finally giving income investors an opportunity to buy great companies at cheap stock prices. Some of Canada's most reliable businesses now provide dividend yields above 5%. In a market where a GIC only pays 1.5%, this is attractive.

Buying stocks during a crash takes courage, but the rewards can be significant. Top companies normally bounce back and the best ones have very safe dividends.

Let's take a look at two Canadian income stocks that might be interesting picks right now.

BCE

BCE (TSX:BCE)(NYSE:BCE) is Canada's largest communications provider with wireless and wireline assets extending across the country. The company is investing heavily in its fibre-to-the premises initiative, which brings fibre optic lines right to the door of businesses and homeowners. This helps expand BCE's wide competitive moat.

BCE also has a large media business. The division provides a steady stream of content and includes sports teams, a television network, specialty channels, and radio stations. BCE also owns retail stores and an advertising business.

The nature of BCE's business makes it relatively resistant to volatility in global financial markets. The company's operations are focused in Canada and its mobile and Internet offerings are essential services for consumers and businesses. When times get tough, people are not going to cancel their mobile or Internet subscriptions.

BCE generates strong free cash flow to support the generous dividend. The board raised the payout by 5% for 2020 and investors should feel comfortable with the safety of the distribution.

Falling interest rates and declining bond yields bode well for BCE. The company uses debt to fund its large capital programs and the reduced borrowing costs will potentially free up additional funds for distributions to shareholders.

Investors who buy the stock today can pick up a 5.5% yield.

Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is Canada's largest bank by market capitalization and one of the 15 largest in the world.

The bank earned $3.5 billion in adjusted profits in fiscal first quarter 2020. This represented a gain of $337 million, or 11% over the same period last year. The strong performance came despite headwinds for the banking sector and is a good indication of the quality of Royal Bank's overall business.

The company operates in 36 countries and generates revenue across a number of business units, including personal banking, commercial banking, wealth management, capital markets, insurance, and investor and treasury services.

Royal Bank is well capitalized with a CET1 ratio of 12%. This means it has the capital resources to ride out a downturn. In fact, Royal Bank's size and strong financial position provide it with significant firepower to make strategic acquisitions that might come up as a result of the stock market correction.

At the time of writing the share price is below $90, compared to $109 in February. Investors who buy the stock today can pick up a dividend yield of 4.75%.

The bottom line

BCE and Royal Bank pay reliable dividends that should continue to grow. The stocks appear oversold right now and should be solid picks for a buy-and-hold TFSA income fund.

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