Income Investors: 2 Oversold Dividend-Growth Stocks for a TFSA Pension

Description

The stock market correction is finally providing income investors with an opportunity to buy top-quality dividend stocks at attractive prices.

The crash in the **TSX Index** has reduced the share price of many of Canada's leading dividend-growth stocks to the point where investors can now get yields of 5-6%, which is much higher than the 1.50% the major banks currently offer for a GIC.

Industry leaders with strong track records of dividend growth supported by rising revenue and earnings are normally the best candidates for an income-focused TFSA.

Let's take a look at two top companies that might be interesting picks today.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is trading close to $60 per share compared to $74 in February. The current price-to-earnings multiple is down to 8.7. This appears very cheap given the bank's profitability and strong capital position.

Bank of Nova Scotia earned adjusted net income of $2.34 billion in fiscal Q1 2020, which was 2% higher than the same period last year. Return on equity remained robust at 13.9%, and Bank of Nova Scotia has a strong capital position with a CET1 ratio of 11.4%. This means the bank has the capital in place to ride out a meaningful downturn.

On the risk side, Bank of Nova Scotia could see defaults increase in the energy portfolio if the recent plunge in oil prices lasts for several months. In addition, a meltdown in commodity prices caused by a global recession would likely hit the bank's operations in Latin America.

Bank of Nova Scotia has invested billions of dollars to acquire banks and credit card portfolios in Mexico, Peru, Chile and Colombia.

Despite the near-term uncertainty, however, the stock appears oversold at the current level. Investors who buy today can pick up a solid 6% dividend yield. The payout should be safe. Bank of Nova Scotia didn't cut its distribution during the Great Recession.

TC Energy

TC Energy (TSX:TRP) (NYSE:TRP) is a leading player in the North American energy infrastructure industry. The pipeline stocks often get hit when oil prices fall, but they shouldn't be lumped into the same camp as drillers. TC Energy isn't an oil or gas producer; rather, it simply transports or stores the product for its customers.

The company gets about 95% of its comparable EBITDA from regulated assets or long-term contracts, so cash flow should be reliable and predictable. TC Energy also has power generation assets that diversify the revenue stream.

The company has a $30 billion secured capital program through 2023 and is advancing $20 billion in projects under development. As new assets are completed and go into service, TC Energy is targeting cash flow growth that is says will support annual dividend increases of 5-7% beyond 2021.

The share price is down to $62 from $72 in recent days. Investor who buy now can pick up a 5.2% yield.

The bottom line

Bank of Nova Scotia and TC Energy are major players in their respective industries and should be solid buy-and-hold picks for a balanced TFSA income portfolio.

Additional downside could be on the way in the near term. However, history suggests that buying these stocks on major corrections tends to deliver healthy returns over the long run.

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1. Bank Stocks
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TICKERS GLOBAL

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:TRP (TC Energy Corporation)

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