Market Crash: 2 Oversold Dividend Stars for a TFSA Income Portfolio

Description

Retirees and other income investors are getting a chance to add top-quality Canadian dividend stocks to their TFSA income funds.

The share prices of many of Canada's dividend stars have fallen to the point where they now appear oversold and offer very attractive yields.

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

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) is trading at $60.50 per share compared to $102 at this time last month. The 40% decrease has driven the dividend yield to 7%.

Bank of Montreal has paid a dividend every year since 1829. That's nearly two centuries of steady distributions for shareholders. The long track record should give investors confidence in owning the stock for reliable income.

Bank of Montreal has a balanced revenue stream coming from personal banking, commercial banking, and wealth management operations in both Canada and the United States. The American division has roughly 500 branches primarily located in the Midwest states.

Bank of Montreal is known for being very strong in the commercial banking area. Fears that a global recession could hit companies in the coming months might be one reason Bank of Montreal's share price has taken such a heavy hit. Rough times are likely on the way in the coming months. However, the market reaction appears too drastic right now.

The bank reported solid results for fiscal Q1 2020. Adjusted net income came in at $1.6 billion, representing a 5% gain over the same period last year. The adjusted return on equity was a healthy 13.5%, and Bank of Montreal remains well capitalized with a CET1 ratio of 11.4%.

The stock is trading at just 6.9 times trailing 12-month earnings. That's very cheap, even considering the uncertain economic conditions.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a North American utility company with more than $50 billion in assets located in Canada, the United States, and the Caribbean.

The businesses include power generation, electric transmission, and natural gas distribution operations. Revenue and cash flow tend to be reliable and predictable due to the regulated aspects of the operations. This makes Fortis relatively recession-resistant.

Businesses and households have to turn on the lights and keep the building heated or cooled, even during an economic downturn.

Fortis grows through acquisitions and internal projects. The current five-year capital program will see the company invest more than $18 billion. As new assets are completed, the rate base is expected to jump significantly. As a result, Fortis intends to boost the dividend by an average annual rate of 6% through 2024.

In the existing market environment, that should provide income investors with a sense of comfort. Fortis has increased the dividend in each of the past 46 years. At the time of writing, investors can pick up a yield of 4%.

Fortis uses debt to make acquisitions and pay for capital projects. Recent cuts to interest rates in Canada and the United States, along with falling bond yields, should reduce the company's borrowing costs and potentially free up more cash for payouts to investors.

The stock trades at $47 per share compared to $58 just one week ago. Given the nature of the asset base, the sell-off appears overdone.

The bottom line

Bank of Montreal and Fortis have strong track records of paying reliable dividends. If you have some extra cash sitting on the sidelines, these stocks deserve to be on your income radar today.

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