Top Dividend Stocks to Buy on the TSX Index

Description

Typically, income investors can rest comfortably in a bear market as steady dividends lessen the blow. This crisis, however, is proving different. That usually reliable income stream is anything but, as top dividend stocks are cutting payouts at a record pace.

Since the start of the COVID-19 crisis, there have been more than 50 TSX-listed companies that have cut or suspended dividends. Not even Canadian Dividend Aristocrats are immune. Some with dividend-growth streaks in the double digits are making the tough decision to cut or suspend their payouts.

It is no different south of the border. Leading oil major **Royal Dutch Shell** cut the dividend by 66% — the first time the dividend has been cut since World War II.

It is time for income investors to re-think their approach to dividend investing. At the top of the list is the safety of the distribution. With that in mind, here the top dividend stocks on the TSX Index to own today.

The country's top dividend stock

Utilities are some of the most reliable income stocks in the country. At the top of the Canadian Dividend Aristocrat list, you will find several. In fact, three of the top five longest streaks in the country belong to utility stocks.

Near the top is **Fortis** (TSX:FTS)(NYSE:FTS), which holds a 46-year dividend-growth streak. Since utilities typically generate negative free cash flow, the safety of the dividend is best compared against earnings. At only 50.40% of earnings, Fortis's dividend is well covered.

Utilities have performed quite well during the COVID-19 crisis and have re-established themselves as some of the most defensive stocks in the country. Why choose Fortis over some of the others? For starters, 99% of the company's earnings come from regulated earnings. This provides stable cash flows regardless of economic activity.

To go along with the long dividend-growth streak, this top dividend stock is also one of the most consistent in terms of growth. A safe and growing dividend relies not only on a strong payout ratio as a percentage of historical earnings, but the company must also be able to grow the business. The company has consistently grown earnings in the mid- to high single digits and is expected to do so again over the next five years.

Thanks to a clear path to growth, Fortis is targeting 6% annual dividend growth through 2024. Arguably, Fortis is Canada's top dividend stock.

The safest bank stock

We can't talk safe and reliable income stocks without talking about Canada's big banks. Although international banks are cutting dividends at request of federal governments, don't expect such actions here in Canada.

Canada's banks have the longest uninterrupted growth steaks in the county. Spanning more than 100 years, retirees and pension plans rely on Canada's banks for income. As such, the Feds aren't likely to get involved. All they ask is that banks not raise dividends during this time.

This is not out of the ordinary, as they all kept dividends steady during the Financial Crisis. My pick for the safest of the bunch is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD). There are two main reasons why TD Bank stands out over its peers as a top dividend stock.

First, the company has been the fastest-growing bank. Post 2020, the expectation is for mid-single-digit earnings growth. Once again, this places it among the best banks in terms of growth. As the U.S. looks to re-open the economy ahead of Canada, TD Bank will be among the first banks to benefit from a return to normalcy.

Second, TD Bank has the lowest payout ratio (47.95%) of all the Big Five banks. TD Bank's payout ratio has been among the lowest for years, which has allowed for outsized dividend growth. At 10% on average over the past five years, it also has the highest dividend-growth rate.

Bottom line: investors can rest assured that Canada's big banks are among the top dividend stocks in the country.

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