A Top Dividend Stock to Buy for Your TFSA

Description

It’s time for investors to get excited about top dividend stocks again. After getting a massive hit from the COVID-19-triggered downturn, these stocks are staging a comeback.

Banks, telecom companies, airlines, and energy utilities are some of the sectors that lagged the market during the recent rebound. But as the economy reopens, these top dividend stocks are now catching up fast.

Still, these top-quality dividend stocks are a lot cheaper than they were a year earlier, and they offer a great opportunity to TFSA investors to build their income-producing portfolios.

Income investors should focus on the companies that provide basic and essential services and whose revenues are not too volatile. If you’re on a hunt for top dividend stocks, then I strongly recommend adding **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) to your TFSA portfolio.

From its lowest point this year in March, TD Bank stock has gained about 34%. Trading at $65.34, TD stock has surged 16% during the past one month.

Cheapest valuation

Despite this surge, this top dividend stock has more room to grow, as valuations are still quite low. Canada’s six largest lenders now trade at just 9.3 times estimated 2021 earnings, which is well below the 10-year average of 11 times earnings. That’s close to the sector’s cheapest valuation since the financial crisis.

Another attractive reason to buy TD Bank stock now is that its dividend yield, at 4.5%, is quite attractive. It’s a huge payout relative to the 0.675% yield on the 10-year Government of Canada bond. TD has been very consistent in rewarding investors through steadily growing dividends. It has an excellent payout policy, distributing between 40% and 50% of income in dividends each year.

In addition, TD has a great diversification business with its wide presence in the United States. It generates about 30% of its net income from the U.S. retail operations.

Risks to growth

That being said, there are risks to this positive outlook if the virus-induced slowdown continues and the economy takes longer to get back to its full capacity.

In the recent earnings report, TD highlighted these risks. The bank’s U.S. operations were the biggest drag on performance in the quarter, as profit plunged 73% amid a challenging mix of higher provisions, weaker margins, and a downturn in customer activity.

In Canada, TD’s core retail banking business saw profit slide 37% year over year. Revenue in the division inched up; however, that was offset by a jump in loan loss provisions.

“TD entered this operating environment from a position of strength, with a high quality balance sheet and strong liquidity and capital positions,” CEO Bharat Masrani said in the earning release on May 28, adding TD will “take the steps needed to support and protect the economy and those we serve.”

Bottom line

Canada’s top dividend stocks, such as TD Bank, are low-risk investments that have become attractive again after this steep sell-off. TFSA investors could start building their long-term income portfolios by buying these stocks at a much lower level and higher yields.

Whether you’re looking at banks or other sectors, the key to successful investing is to always stay diversified and focus on the long term.

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