Got $3,000 to Invest? 2 Cheap Dividend Stocks for a Self-Directed TFSA

Description

The recent market pullback is giving investors a second chance to buy top-quality Canadian dividend stocks at cheap prices.

Let's take a look at two companies with attractive dividends that should be safe through the pandemic and have the potential to generate great returns in a TFSA portfolio.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with power generation, electric transmission, and natural gas distribution businesses located in Canada, the United States, and the Caribbean.

Revenue primarily comes from regulated industries. This means cash flow on the company's $57 billion asset base should be predictable and reliable. Electricity and natural gas keep households and businesses operating. The essential nature of the services makes Fortis somewhat recession-resistant.

The board has raised the dividend in each of the past 46 years. Fortis says its capital program of nearly $19 billion should boost the rate base significantly over the next four years. As the projects are completed, Fortis expects revenue and cash flow to increase enough to support average annual dividend hikes of 6% through 2024.

Fortis trades near $50 per share at the time of writing and provides a 3.8% dividend yield. The stock hit a closing low around $42 in March and traded above $58 earlier this year. The yield isn't as high as what you can get from other top stocks today, but the dividend-growth outlook is a bonus and makes up for the difference.

Royal Bank

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the largest Canadian bank by market capitalizationand one of the top 15 globally.

The bank entered the pandemic with a strong capital position, and that remains the case. The company's CET1 ratio at the end of fiscal Q2 came in at 11.7%, down from 12% the previous quarter. Uncertainty surrounds the type of economic recovery we might see, but Royal Bank has the capital to ride out the recession. The 2.7% buffer above the minimum required CET1 ratio of 9% translates into a surplus of $15 billion.

The bank set aside $2.8 billion for potential loan losses for fiscal Q2. This resulted in a 54% drop in year-over-year net income for the quarter. Despite the large provisions, Royal Bank still reported net income of $1.5 billion for the three months ended April 30. Return on equity was a respectable 7.3%.

Royal Bank's dividend should be safe, and investors can pick up a yield of 4.75%. The stock trades near $91. It was above $109 in February and hit a closing low near $72 in March.

At this price, Royal Bank looks cheap for buy-and-hold investors, although volatility in the markets in the coming months should be expected. Additional downside in the share price would be considered a good opportunity to add to the position.

The bottom line

Investors with some spare cash to invest have several great choices right now for a dividend-focused TFSA. Fortis and Royal Bank pay solid distributions and should be reliable picks for a buy-and-hold portfolio.

If you only choose one, I would make Fortis the first choice today. The stock appears oversold right now and offers steady guidance on dividend growth over the next few years.

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