Retirees: 2 Defensive TSX Dividend Stocks for You

Description

Most retirees need more passive income than they do when they were working. Consequently, they would want defensive dividend stocks that can provide generous passive income while protecting their principal.

Here are two defensive **TSX** dividend stocks that retirees can consider today.

A defensive TSX dividend stock for growing income

Emera (TSX:EMA) could be a great buy for retirees now. After the defensive TSX dividend stock has gone essentially sideways since mid-2019, it trades at a reasonable valuation.

Emera and Fortis are in similar lines of business. They're primarily regulated electric and gas utilities with more earnings coming from the United States than Canada. Therefore, their stock prices move in tandem.

Currently, they're reasonably priced for conservative investors. However, Emera's dividend yield is bigger. So, retirees might prefer it over Fortis.

Specifically, Emera earns about 65% of its earnings from the U.S. It provides a yield of 4.8% at $52.75 per share at writing. The regulated utility has a 14-year dividend growth streak with a three-year dividend growth rate of about 5%. Through 2022, Emera is committed to increasing its dividend by about 4-5% a year.

Emera offers a generous passive income that exceeds the Canadian market's 2.6% and will increase that income at a rate that surpasses inflation to more than protect investors' purchasing power.

A high-yield dividend stock

Retirees might think **H&R REIT** (TSX:HR.UN) dividend is not safe because it cut its cash distribution by about half in May 2020. However, it's precisely because of that cash distribution cut that the diversified REIT's cash distribution is much safer today than it was before.

Moreover, the stock is also trading at much cheaper levels. The end result is a safe dividend that is up for grabs at a meaningful discount.

H&R REIT has a resilient portfolio across office (contributes 44% of its rent), retail (34%), residential (16%), and industrial (6%) assets. Its rent collection was 95% in October, showing signs of steady improvement from the worst-pandemic-impacted Q2, in which it had rent collection of 90%.

Because of the cash distribution cut, the REIT's payout ratio going forward is estimated to be about 50%, which provides a massive margin of safety for its cash distribution.

H&R REIT offers a juicy yield of about 5.6% that's more than double that of what the TSX index offers.

Risks in H&R REIT

No investment comes with no risk. About 14% of H&R REIT's operating income comes from **Ovintiv**, its largest office tenant that has a remaining lease term of 17 years.

For now, Ovintiv has an investment-grade S&P credit rating of BBB- with a negative trend. This is a risk factor.

It is appropriate to apply some sort of discount on H&R REIT stock for the higher uncertainty in retail and office properties for the medium to long term with regards to the pandemic, the changing retail landscape, the work-at-home crowd, and the concentration in Ovintiv.

Assuming 0% FFO growth but a rebound to a discounted P/FFO of 9.5, an investment in H&R REIT can deliver total returns of about 14-20% per year over the next three to five years, while providing a nice monthly dividend.

The Foolish takeaway

Emera and H&R REIT can play a role in retirees' diversified income portfolio. Both offer safe yields of close to 5% right now. Consider holding H&R REIT in a tax-advantage account like a TFSA to protect you from tax-reporting headaches because its cash distribution is taxed differently from dividends.

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2. TSX:HR.UN (H&R Real Estate Investment Trust)

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kayng