TFSA Investors: 3 Top Dividend Stocks to Buy in This Expensive Market

Description

Retirees and other TFSA investors constantly search for top dividend stocks that offer reliable distributions and a shot at decent capital gains. Markets now trade near record levels, but some of the best dividend stocks still appear cheap today.

Why Fortis deserves to be a top dividend stock in a TFSA portfolio

Fortis (TSX:FTS)(NYSE:FTS) started out as a small, local power company in eastern Canada. Now it is a major player in the Canadian and U.S. utility sector with more than $50 billion in assets. Growth comes via acquisitions and internal development projects.

The current $19.6 billion capital program will boost the rate base from $30 billion in 2020 to $40 billion by the end of 2025. This should drive cash flow growth to support average annual dividend increases of 6%. Fortis has other projects under consideration, so the payout growth might actually be higher.

The board raised the distribution in each of the past 47 years. At the current stock price near $52, the dividend offers a 3.9% yield. Fortis traded as high as $59 in the past 12 months, so there is decent upside opportunity on the next rebound.

Royal Bank of Canada remains an anchor pick for TFSA investors

Royal Bank (TSX:RY)(NYSE:RY) isn't as cheap as it was during the crash in 2020, but the stock looks reasonably priced after the latest dip.

The bank is a giant in the Canadian and global financial sector. Size matters in this business. Financial institutions need to invest heavily in new technology to remain competitive in the mobile banking era. Royal Bank has the financial clout to compete and continues to be a profit machine.

Canadian banks should get the green light to raise dividends by the end of the year. Share buybacks could also restart. That's good news for Royal Bank investors. The current dividend payout provides a 4% yield.

Royal Bank has delivered great returns over the years. A $5,000 investment in the stock 25 years ago would be worth about $150,000 today with the dividends reinvested.

Why Enbridge stock looks cheap right now

Enbridge had a rough ride in 2020. Falling fuel demand resulted in lower throughput across the core oil pipelines. This part of the business typically operates near capacity.

As vaccinations roll out to the broader population in developed economies through 2021, the situation should start to normalize. People will start commuting to offices again, and planes will eventually return to the skies.

Enbridge's natural gas transmission and renewable energy divisions get less attention, but they provide balance to the revenue stream. This is why the board felt comfortable raising the dividend late last year. Looking ahead, Enbridge expects current and future growth projects to drive distributable cash flow gains of 5-7% per year. This should support annual dividend increases in the same range.

The stock trades near $45 today, compared to $57 before the pandemic. Investors who buy now can pick up a solid 7.4% dividend yield. That's a great return in a world where GICs currently offer less than 1%.

The bottom line on top dividend stocks

Fortis, Royal Bank, and Enbridge have great dividend-growth track records and deserve to be anchor positions in a TFSA income fund. In a market that is arguably overbought, it makes sense to buy top dividend stocks that offer attractive and reliable yields.

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3. NYSE:RY (Royal Bank of Canada)
4. TSX:ENB (Enbridge Inc.)
5. TSX:FTS (Fortis Inc.)
6. TSX:RY (Royal Bank of Canada)

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