Got $1,000? 3 Top Dividend Stocks to Buy for 1st-Time Investors

Description

Dividend stocks outperform broader markets in the long run. They create a stream of stable passive income, which offers immense comfort during turbulent times. Here are three TSX dividend stocks that investors can consider for their long-term portfolios.

Fortis

What should investors look for when picking dividend stocks?

They should look for stable earnings growth. Top Canadian utility **Fortis** (TSX:FTS)(NYSE:FTS) is one of the most stable companies when it comes to earnings and dividends.

It generates almost the entire of its earnings from rate-regulated operations. Due to the predictability of earnings, Fortis has increased dividends for the last 47 consecutive years. Even during recessions, companies like Fortis earn stable earnings that facilitate steady dividend payments.

Another factor that investors should consider while investing in dividend stocks is the dividend yield. It is the dollar amount received in dividends against the price of the stock. Fortis yields a decent 3.7% at the moment. That means a $10,000 investment in FTS stock would make $370 in dividends every year. The dividend amount will increase, as the company increases its profits over the years.

TC Energy

Investors should focus on dividend yields instead of absolute dividend amounts. If you are looking for higher dividends, consider **TC Energy** (TSX:TRP)(NYSE:TRP). TRP stock currently yields 6% — way higher than Fortis.

TC Energy is an energy pipeline company, and its earnings are not highly exposed to volatile oil and gas prices. Apart from the energy midstream, it is also involved in power generation.

That's why it has stable cash flows that facilitate consistently growing dividends, unlike other energy companies. Interestingly, TC Energy has increased dividends for the last 21 straight years.

Last year, TC Energy had a payout ratio of 68%. It is a percentage of the company's profits distributed among shareholders in the form of dividends. Such large payout ratios are not uncommon among dividend stocks. However, significantly large payout ratios close to or beyond 100% indicate unsustainability and a potential dividend cut.

Companies like TC Energy and Fortis have stayed strong and increased dividends through the 2008 financial meltdown and the pandemic last year as well. Their earnings are comparatively more resilient to the shakes in the broader economy, which makes them some of the best defensive stocks.

Toronto-Dominion Bank

It makes sense to bet on the banking sector amid the ongoing economic recovery. Among the Big Six Canadian banks, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is one of the attractive bets from growth and from a dividend stability perspective.

TD Bank yields almost 4% at the moment, which is in line with the peers. It has significant operations in the U.S., which will likely act as a growth catalyst in the post-pandemic environment. Also, its superior credit quality and loan-loss reserves should fuel robust recovery for the next few years.

TD stock is up more than 50% in the last 12 months. Despite the recent surge, its discounted valuation and stable dividends make it an attractive bet for long-term investors.

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