Top Canadian Dividend Stocks to Buy in May 2021

Description

Capital protection is the main priority for most investors. Dividend stocks generally are less volatile and offer stability. If you are looking for relatively safer options along with decent return potential, here are three top Canadian dividend stocks for long-term investors.

Toronto-Dominion Bank

The second-largest Canadian bank, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is my top pick. It yields nearly 4%, close to the peers' average yield. The bank stands substantially higher in terms of credit quality compared to peers.

Canadian banks turned extra conservative last year and reserved billions of dollars under provisions for loan losses. However, driven by government stimulus and faster economic recovery, loan losses have been lower than expected.

Thus, the provisions for loan losses will likely reverse this year and be used as growth capital. Interestingly, the CET1 (common equity tier 1) ratio, a metric that shows banks' financial cushion to withstand severe economic decline, is the highest for TD Bank at 13.6%.

Peer Canadian banks have an average CET1 ratio of 12%. This indicates that TD Bank will be comparatively more capable of withstanding a potential severe economic shock. Canadian banks will likely increase dividends or issue fresh buybacks once regulators loosen restrictions in the next few quarters.

TD Bank's diversified operations in Canada and the U.S. bode well for its earnings growth. Its stable dividend profile and decent growth prospects make it an attractive bet for long-term investors.

Hydro One

Hydro One (TSX:H) is one of the top utilities in Canada. It yields 3.5% and has increased dividends for the last four straight years. Investors can expect a dividend increase announcement from Hydro One this week based on its historical trends.

Some utility bigwigs offer higher yield and have decades of dividend increase streak. So, why should investors invest in Hydro One?

Interestingly, Hydro One offers an extra layer of safety that none of the other utilities do. Hydro One does not involve in power generation but operates as a transmission and distribution utility. This saves big on upfront capital investments and further lowers the operational risk.

Also, it operates majorly in Ontario, the most populous province in the country. It earns a majority of its cash flows from rate-regulated operations, which enables earnings visibility. Hydro One will likely continue to increase its dividends for years, like bigger utilities, driven by its large, regulated operations.

TC Energy

If you are looking for a superior dividend yield, consider **TC Energy** (TSX:TRP)(NYSE:TRP). It yields 6% at the moment and has increased dividends for the last 21 consecutive years.

TC Energy's strong balance sheet, diversified high-quality assets, and earnings stability have significantly rewarded shareholders. TRP stock has delivered an average annual return of 12% since 2000. The company intends to invest $20 billion in various growth projects, which should support its 6% targeted dividend growth for the next few years.

TC Energy has returned 20% so far this year. Despite its strong performance, the stock looks relatively cheaper from the valuation standpoint and suggests a decent upside potential.

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Date
2025/08/31
Date Created
2021/05/04
Author
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