TFSA Investors: 2 TSX Dividend Stocks to Buy and Hold Forever

Description

Canadian banks have proven to be quality investments over the long term and have provided shareholders with a combination of capital gains, dividend income, as well as compounded dividend growth.

While the domestic banking industry is concentrated among a handful of large and formidable players, competition in this sector has remained healthy, allowing them to navigate multiple economic crises, including the ongoing pandemic as well as the financial crash of 2008-09.

The banking industry plays a key role in the functioning of our economy, and it should not surprise investors that some of the largest Canadian companies are part of this sector.

We'll analyze why Canadian banking giants such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) should be part of your TFSA portfolio.

TFSA is a popular registered account

The Tax-Free Savings Account or TFSA is one of the most popular registered accounts among Canadians. Introduced in 2009, the maximum cumulative contribution limit for TFSA account holders stand at $75,500. In 2021, the maximum contribution limit is $6,000. The TFSA allows you to hold a variety of instruments, including equities, bonds, ETFs, mutual funds, and even GICs.

As any withdrawals from the TFSA are exempt from Canada Revenue Agency (CRA) taxes, it makes sense to buy and hold blue-chip, dividend-paying stocks in this account. The sheer size of TD and the Royal Bank of Canada offers multiple benefits to shareholders including compounded returns.

Both the banks enjoy a leadership position in Canada allowing them to expand the scope of their businesses in the past decade. Royal Bank of Canada continues to make strides in international markets particularly in the wealth and asset management verticals. Likewise, TD is gaining traction in the retail banking space south of the border.

What’s next for dividend investors?

Banking stocks including TD and RY were negatively impacted in the bear market of 2020, as investors were concerned over rising unemployment rates in Canada that would increase the number of bad loans and mortgage defaults. However strong financials of Canadian banks, as well as support from the federal government in terms of financial benefits, ensured the economy did not fall off a cliff.

Canadian banks were forced to halt any dividend increases and share buybacks in the last 15 months due to an uncertain macro-economy. As the pandemic resulted in economic lockdowns, banking companies shored up their balance sheets and allocated billions of dollars as provisions for credit losses.

The Big Six banks had an internal CET1 (common equity tier one) target ratio of 11%. This ratio basically calculates a bank’s financials against its risk-weighted assets, which indicates its ability to endure any financial distress. However, at the end of the April quarter, the CET1 ratio of the top six banks stood at 12.8%, or a record $270.6 billion.

The regulatory standard for the ratio is around 9%, which suggests the excess capital with banks is over $80 billion, providing them room for dividend increases going forward. Royal Bank of Canada currently provides investors with a forward yield of 3.43%, while Toronto-Dominion Bank has a yield of 3.63%.

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