2 Top Canadian Dividend Stocks for Passive TFSA Income

Description

Pensioners and other income investors can buy top Canadian dividend stocks inside their TFSAs to generate a steady stream of tax-free passive income.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is a major player in the North American energy infrastructure industry with more than $100 billion in assets located in Canada, the United States, and Mexico.

The company has a great track record of dividend growth over the past two decades, and that trend should continue, supported by a large capital program and potential acquisitions. TC Energy is working through $21 billion in secured development projects that will boost revenue and cash flow in the coming years. Management intends to raise the dividend by 5-7% annually over the medium term. That's decent dividend growth for passive-income investors.

Consolidation is expected in the energy infrastructure industry, and TC Energy has the financial clout to make strategic acquisitions. Its US$13 billion purchase of Texas-based Columbia Pipeline in 2016 is a good example. The deal gave TC Energy key natural gas pipeline infrastructure in the Marcellus and Utica shale plays and important connections from Appalachia to the Gulf Coast.

The stock appears undervalued right now near $60 per share. TC Energy traded as high as $65 in 2021 and was $75 before the pandemic. Investors who buy the stock now can pick up a 5.8% dividend yield with solid distribution increases on the way.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $56 billion in assets located in Canada, the United States, and the Caribbean. Most of the revenue comes from regulated businesses. This means cash flow tends to be predictable and reliable year over year. That's ideal for income investors who need stable returns from their passive investments.

Like TC Energy, Fortis grows through acquisitions and organic developments. The current $19.6 billion secured capital program will boost the rate base by a third from 2020 to 2025. As a result, the board expects to raise the dividend by an average of 6% per year over that timeframe. Fortis has electric transmission and renewable power projects under consideration in the United States and Canada that are not currently part of the capital program, so the growth projections could get an upgrade if these get added to the capital plan.

Fortis raised the dividend in each of the past 47 years. That's a great track record for investors to use as a benchmark for anticipated distribution growth. Fortis is a top income stock for retirees, but young investors might also want to consider it for a TFSA or RRSP retirement portfolio. A $10,000 investment in Fortis 25 years ago would be worth about $200,000 today with the dividends reinvested.

At the time of writing the stock provides a 3.5% dividend yield.

The bottom line on passive income

TC Energy and Fortis are both top Canadian dividend stocks to consider for a TFSA portfolio focused on passive income. The stocks have long track record of distribution growth, and the companies are providing good guidance on future payout increases. If you have some cash available in your TFSA, I think these stocks deserve to be on your buy list.

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