2 Top TSX Stocks to Buy Now for a TFSA Dividend Portfolio

Description

The overall stock market appears overbought, but TFSA investors searching for top dividend stocks can still find good deals for their income portfolios.

Manulife

Manulife (TSX:MFC)(NYSE:MFC) is Canada's largest insurance company with a market capitalization of $48 billion. The firm has insurance, wealth management, and asset management operations in Canada, the United States, and Asia.

Manulife took a big hit during the financial crisis a decade ago as a result of its exposure to equity markets through the U.S. annuities business. The meltdown resulted in a 50% dividend cut from $0.26 to $0.13 per share, and the market punished Manulife for its vulnerability to market crashes.

The company subsequently reduced its risk profile and started raising the dividend again in 2014. Since then, the payout has increased at a steady pace and is now at $0.28 per share. That's good for a dividend yield of 4.5% at the current share price near $24.50.

The Bank of Canada and the U.S. Federal Reserve are expected to start raising interest rates in 2022. Higher rates tend to be positive for insurance companies, as they can get better returns on the funds that the company sets aside to cover potential claims.

Manulife reported record core earnings in Q2 2021 with strong results coming from the Asia and Global Wealth and Asset Management businesses. Management is investing heavily to transform the firm into a leader in digital services for clients. The head start the company had on the digital transformation has helped it navigate the pandemic challenges.

The share price is down from the 2021 high above $27.50, so investors have a chance to buy Manulife on a nice dip and collect an attractive dividend yield.

Suncor

Suncor (TSX:SU)(NYSE:SU) cut its dividend by 55% last year to protect cash flow as oil prices crashed and a plunge in fuel demand hit its refining and retail businesses.

Oil prices have recovered to above pre-pandemic levels, and people are starting to book flights and return to offices, as travel restrictions and work-from-home mandates ease. The result is a strong rebound in revenue and cash flow for Suncor, and the trend should continue into next year.

Suncor is using excess cash in 2021 to buy back shares and reduce debt. Other oil majors have raised their dividends this year, and they have been rewarded with higher share prices. With oil at very profitable levels and downstream revenues rebounding, Suncor could deliver large dividend hikes in 2022 and 2023. In fact, it wouldn't be a surprise to see the payout return to the previous level over the next two or three years.

The stock appears undervalued at the current price of $24.50 per share. Suncor traded as high as $31 a few months ago and was above $40 before the crash. Investors who buy now can pick up a 3.4% yield and wait for the improved cash flow to translate into higher dividends.

The bottom line on TFSA dividend picks

Manulife and Suncor are leaders in their respective industries. The companies have turned the corner on some rough times and should deliver solid dividend growth and attractive total returns over the next few years. Investors with some cash to put to work in a TFSA dividend portfolio should consider buying these stocks while they are still cheap.

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