2 Cheap Financial Stocks to Buy Now for TFSA Dividend Income

Description

Retirees and other passive-income investors are using their TFSAs to build dividend portfolios that generate steady tax-free earnings.

Manulife

Manulife (TSX:MFC)(NYSE:MFC) is an insurance and wealth management company with operations in Canada, the United States, and Asia. The business has strong group benefits businesses in both Canada and the U.S. and offers personal life insurance products and investment services to retail clients.

Manulife's wealth management operations in the United States operate under the John Hancock brand.

The company reported strong Q2 2021 results. Core earnings rose 18% to $1.7 billion in the quarter compared to Q2 2020. The expense ratio remains below the 50% target at 46.8% and core return on equity came in at 13.9%. Manulife maintains a strong capital position with a LICAT ratio of 137%. This is a measure of the funds the company has available to cover potential life insurance claims on policies. Insurance companies are required to have a ratio of at least 90%.

Global wealth and asset management net inflows were $8.6 billion in the quarter, supported by double-digit year-over-year growth across all the operating regions.

Manulife cut its dividend in half during the financial crisis to preserve cash. The company has made several changes in the past decade to remove risk from the business, and it is unlikely a repeat would occur, even in the next crash. The dividend is now back above the level it paid before the cut with a quarterly payment of $0.28 per share. That's good for an annualize yield of 4.6% at the current share price near $24.50. The stock traded above $27.50 earlier this year, so investors have a chance to pick up Manulife on a dip.

Manulife should perform well in an environment of rising interest rates. The insurer would generate better returns on the cash it has to set aside to cover potential insurance claims.

TD Bank

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank by market capitalization and a strong competitor in the U.S. retail banking sector. The bank acquired a string of regional U.S. banks over several years to build the American business that now has more branches than the Canadian operations and runs from Maine all the way down the U.S. east coast to Florida.

TD has navigated the pandemic in good shape thanks to government aid programs that have enabled businesses and unemployed homeowners to continue making payments on loans and mortgages. When the financial assistance ends, there will likely be a rise in bankruptcies, but TD has a good handle on where those risk lie and maintains the capital cushion to absorb the hit.

In fact, TD finished fiscal Q3 2021 with a CET1 ratio of 14.5%. This means TD is sitting on significant cash that it will look to deploy as the economy rebounds. Investors should see a generous dividend increase as soon as the banks get the green light from the government to restart dividend hikes. TD is one of the top dividend-growth stocks on the TSX Index over the past two decades.

The stock is down to $83 at the time of writing from the 2021 high of $89. Investors who buy TD stock at this level can pick up a 3.8% yield.

The bottom line

Manulife and TD are leaders in their industries and should deliver solid long-term dividend income for buy-and-hold investors. If you have some cash to put to work in a TFSA portfolio focused on passive income, these stocks look attractive today.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:TD (The Toronto-Dominion Bank)

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