Retirees: 2 Top Canadian Stocks to Buy Today for TFSA Passive Income

Description

Retirees are using their Tax-Free Savings Account (TFSA) to generate tax-free passive income from top Canadian dividend stocks.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) trades near $56 per share at the time of writing compared to the 2021 high above $59. The dip gives investors a chance to pick up a solid 3.8% yield and wait for the steady stream of dividend increases that are on the way in the next few years.

Fortis is working on a $20 billion capital program that will drive 6% per year growth in the rate base through 2026. As a result, the board intends to raise the dividend by an average annual rate of 6% through at least 2025. Fortis has increased the distribution for 48 straight years, so investors should feel comfortable with the guidance.

The company has identified a number of projects that could get added to the development portfolio. Fortis also has a strong track record of making successful strategic acquisitions. The last large deal occurred in 2016, so it wouldn't be a surprise to see another purchase materialize in the next couple of years. If that happens, dividend growth could expand by more than the current forecast.

This is a good stock to own for reliable passive income. Revenue primarily comes from regulated assets. Fortis operates utilities that provide essential services such as electricity and natural gas.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) has a market capitalization of $100 billion. This makes it Canada's third-largest bank based on that metric. Its size gives the bank the means to make strategic acquisitions when opportunities arise and help the Bank of Nova Scotia ride out challenging times, as we saw in the past two years.

Bank of Nova Scotia differs from its peers due to the large international business focused on Latin America. The bank has significant operations in Mexico, Peru, Chile, and Colombia. The pandemic hit these countries hard and it will be some time before the recovery catches up with the rebound we are seeing in Canada.

However, the international group remains quite profitable and holds attractive long-term growth potential. The four countries form the core of the Pacific Alliance trade bloc and are home to more than 230 million people. Bank penetration remains very low, so there are good opportunities to capitalize on rising loan demand as the middle class expands.

Oil and copper production is important for these countries. Prices have already soared off the 2020 lows and are expected to remain high for the next few years.

Bank of Nova Scotia trades at a reasonable 11.6 times trailing 12-month earnings. The company is sitting on excess cash it built up to cover potential loan losses during the pandemic. Some pain is likely still on the way now that government aid programs in Canada are ending, but the bulk of the risk should be in the rearview mirror.

In fact, the government is comfortable enough with the outlook for the Canadian banks that it recently lifted the ban on dividend increases. Bank of Nova Scotia will likely give investors a big raise when it reports fiscal Q4 2021 earnings results on November 30. A dividend increase of 20% for 2022 is certainly possible based on the increases we have already seen from some of the insurance companies.

Investors who buy today can pick up a 4.3% dividend yield.

The bottom line on top stocks for TFSA passive income

Fortis and Bank of Nova Scotia are top-quality companies that should deliver solid dividend growth in the coming years. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

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1. Investing

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