2 Top Undervalued TSX Dividend Stocks to Buy Now for Passive Income

Description

The recent pullback in the **TSX Index** is giving dividend investors a chance to buy some top stocks at undervalued prices for their self-directed TFSA portfolios focused on passive income.

Suncor

Leading up to the pandemic, **Suncor** (TSX:SU)(NYSE:SU) was viewed as a top dividend-growth stock. The company had raised the payout steadily for years, even during the Great Recession and through the oil price crash of 2014 and 2015.

The decision by the board to cut the payout by 55% in 2020 shocked loyal dividend investors and put Suncor stock in the doghouse.

A rebound in oil prices and recovering fuel demand in 2021 have turned things around quickly. Suncor used the excess cash this year to pay down debt. Management now expects net debt at the end of 2021 to be down to where it thought it would be in 2025.

Suncor also bought back more than 4% of its outstanding stock so far in 2021 and is targeting 7% of the float under the increased share-buyback plan. With the balance sheet back in top form the board announced a 100% dividend hike, bringing the payout to the 2019 level. Another increase in the first half of 2022 to fully recover the previous cut or even exceed the pre-pandemic dividend wouldn't be a surprise.

Despite the speedy turnaround, the recovery in Suncor's share price has lagged its peers. The stock trades near $31 per share at the time of writing. It was around $44 before the 2020 crash when oil actually traded cheaper than it does right now.

Investors who buy Suncor stock now can pick up a solid 5.4% dividend yield and wait for the market to realize the share price remains oversold.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) operates more than 93,000 km of natural gas pipelines in Canada, The United States, and Mexico. The company also has oil pipelines and power-generation facilities.

TC Energy's stock price is down to $58 per share compared to $68 in October. A pullback in the broader energy sector is part of the reason for the weakness, but TC Energy also reduced its dividend-growth guidance from 5-7% per year to 3-5% per year over the medium term.

That's not ideal, but the reaction of the market appears overdone. TC Energy is taking a cautious approach due to some challenges on its Coastal GasLink natural gas pipeline project. The development is seeing costs surge due to pandemic-related delays and some protests. TC Energy is committing extra funds while it negotiates with LNG Canada on the recognition of the higher costs. The issues will eventually get sorted out and Coastal GasLink says it expects the higher construction costs to be recovered in the toll fees when the pipeline is completed.

TC Energy has $29 billion in secured capital projects on the go, so there is ample revenue and cash flow growth on the horizon to cover the payout increases. The stock appears cheap right now, and investors can pick up an attractive 6% dividend yield.

The bottom line on top stocks to buy for passive income

Suncor and TC Energy pay great dividends with above-average yields. 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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2. NYSE:TRP (Tc Energy)
3. TSX:SU (Suncor Energy Inc.)
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