2 Top TSX Dividend Stocks to Buy on the Pullback

Description

The recent market dip is giving investors a chance to buy top Canadian dividend stocks at cheap prices.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $89 per share at the time of writing compared to the $95 it hit earlier this month. Investors can now buy the stock at a reasonable 11.5 times trailing 12-month earnings and pick up a solid 4.5% dividend yield.

With a market capitalization of $108 billion, Bank of Nova Scotia has the financial clout to make strategic acquisitions to boost growth. The company spent billions of dollars over the past decade to build its international business that is primarily focused on the Pacific Alliance trade bloc countries of Mexico, Colombia, Peru, and Chile. The pandemic hit these countries hard, but the rebound in oil and copper prices will help them recover quickly as COVID-19 fades.

Bank of Nova Scotia should benefit from rising interest rates in 2022 and 2023. The Bank of Canada is expected to start raising rates as early as next month. Higher interest rates can put pressure on highly leveraged variable-rate borrowers and drive up loan defaults, but banks also generate better net interest margins when rates are moving higher, and that tends to be a net-positive impact.

Bank of Nova Scotia raised its dividend by 11% when it announced the fiscal 2021 results last November. Another generous distribution increase is likely on the way in 2022. The bank is also buying back stock and could use the excess cash it built up over the past two years to make an acquisition. Bank of Nova Scotia's management indicated last year that the bank might look for wealth management opportunities in the United States.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $58 billion in assets located in Canada, the

United States, and the Caribbean. The holdings include power generation, electric transmission, and natural gas distribution operations. Nearly all of the revenue comes from regulated businesses. This is important for investors who are seeking steady dividends for a TFSA or RRSP portfolio. Cash flow tends to be predictable and reliable in all economic situations.

Fortis is working on a $20 billion capital program that will increase the rate base by about a third over the next five years. This should boost cash flow enough to support targeted dividend increase of about 6% per year through 2025. Fortis has additional projects under consideration that might get added to the capital plan. If that happens, the size and outlook range for the distribution hikes could be expanded.

Fortis trades near $58 per share at the time of writing compared to $61 at the end of December. Investors can pick up a 3.7% dividend yield and simply wait for the distributions to grow.

Fortis raised its payout in each of the past 48 years. This is a good defensive stock to add to your portfolio if you are concerned about market volatility in the coming months.

The bottom line on cheap stocks to buy now

Bank of Nova Scotia and Fortis are top TSX dividend stocks that look undervalued right now for a buy-and-hold portfolio. If you have some cash to put to work in a TFSA or RRSP, these stocks deserve to be on your radar.

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