2 Defensive Dividend Stocks for New TFSA Investors

Description

New TFSA investors are looking for reliable stocks that can generate steady passive income and provide attractive long-term total returns. Markets could be more volatile in the next couple of years, so it makes sense to have some defensive stocks as anchor picks for a TFSA retirement fund.

Telus

Telus (TSX:T)(NYSE:TU) provides mobile, internet, security, and TV services to millions of home and business customers across the country. The company has the power to increase prices when costs go up for its network gear, making it a good investment in the current inflationary environment.

Telus is investing billions of dollars to transition from copper lines to fibre optic connections. It is also building out its 5G network. These are capital-intensive initiatives, but they should support revenue and cash flow growth in the coming years.

Telus expects operating revenue to grow by 8% and adjusted EBITDA to increase by 10% in 2022. Free cash flow should be at least $1 billion. Capital expenditures are expected to drop by $1 billion in 2023, paving the way for more free cash flow to be available for distributions in the coming years.

Additional growth is expected to come from subsidiaries such as TELUS Health and Telus Agriculture. The two businesses delivered double-digit revenue growth in 2021.

Telus stock is up about 13% in 2022, but more gains should be on the way. At the time of writing, investors can pick up a 3.9% dividend yield.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) owns $58 billion in utility assets that include power generation, electric transmission, and natural gas distribution businesses. These might not be as exciting as crypto, cannabis, or social media plays, but they are great generators of reliable and predictable revenue.

Fortis grows through strategic acquisitions and organic developments. The company has a $20 billion capital program in place that will increase the rate base significantly in the next few years. As a result, revenue and cash flow growth are expected to support average annual dividend hikes of 6% per year through 2025.

Fortis increased the payout in each of the past 48 years, so the guidance should be solid.

The company is evaluating additional projects that might get added to the capital program. Fortis could also make another acquisition in the next few years. In either scenario, the added revenue growth would likely increase the size of the dividend increases.

This is a good defensive stock to own if you think the economy is headed for a rough ride in the next couple of years. Power production, power transmission, and natural gas distribution tend to be recession-resistant segments.

Fortis stock is down a bit in recent days, giving investors a chance to buy on a small dip. At the time of writing, the shares provide a 3.4% yield.

The bottom line on defensive stocks for a TFSA

New investors looking to start a TFSA portfolio should consider Telus and Fortis as defensive picks for reliable and growing dividends. The companies provide essential services and have great track records of delivering attractive total returns.

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