Passive Income: 2 Oversold, High-Yield Stocks for TFSA Investors

Description

Retirees and other TFSA investors seeking passive income are finally getting a chance to buy some top dividend stocks at discounted prices.

CIBC

CIBC (TSX:CM)(NYSE:CM) trades for close to $142 per share at the time of writing compared to the 2022 high of $167.50. The pullback in the stock price now has CIBC trading at less than 10 times trailing 12-month earnings. That's starting to look undervalued when you consider how profitable the bank is and the strength of its capital position. CIBC reported $1.9 billion in adjusted net income for fiscal Q1 2022, up 15% from last year. The company generated a return on equity (ROE) of 17.6% and finished the quarter with a CET1 capital ratio of 12.2%.

CIBC typically trades at a discount to its larger Canadian peers as a result of its heavier exposure to the Canadian residential housing market. It is true that a meaningful correction in house prices triggered by a wave of defaults would likely hit CIBC harder than the other big Canadian banks, but CIBC has the capital to ride out some tough times. The housing market will likely cool off with mortgages rates rising, but a crash is not expected unless a major economic downturn causes unemployment to spike while interest rates are still moving higher. At the moment, unemployment in Canada is at a record low.

CIBC has done a good job in recent years of diversifying the revenue stream through acquisitions in the United States. That trend could continue, as all the banks are looking for ways to deploy excess cash to drive growth.

CIBC raised the dividend by 10% for fiscal 2022. A similar increase could be on the way for next year. At the time of writing, investors can pick up a 4.5% dividend yield.

More downside might be on the way in the near term. If that happens, buy-and-hold income investors should consider further weakness as an opportunity to add to their position.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) trades near $70.50 compared to a recent high above $74. The energy infrastructure giant operates more than 93,000 km of natural gas pipelines in Canada, the United States, and Mexico. TC Energy also owns vast natural gas storage capacity and power-generation assets.

Liquified natural gas (LNG) demand is expected to boom in the coming years, as Europe looks to end its reliance on Russian supplies and countries around the globe switch to natural gas from coal and oil to producer power. Canadian and U.S. gas producers will benefit from these shifts in the market, and TC Energy has the infrastructure in place or under construction, to move natural gas from the producers to LNG facilities.

TC Energy has a $24 billion capital program on the go that is expected to drive average annual EBITDA growth of 5% over the medium term. Dividend hikes should be in the range of 3-5% annually. At the time of writing, the stock provides a 5% yield.

The bottom line on top stocks for passive income

CIBC and TC Energy are top dividend stocks that currently trade at cheap prices and offer distributions 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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