TFSA Pension: 2 Top TSX Dividend Stocks for Passive Income and Total Returns

Description

Canadian savers are using their TFSA to generate tax-free income and build retirement portfolios that will complement their company, CPP, and OAS pensions down the road.

The recent drop in in equity prices is a reminder that stocks can be volatile, but there are good deals available in the market today for buy-and-hold investors.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a utility company with $58 billion in assets providing more than three million customers in Canada, the United States, and the Caribbean with power and natural gas.

The company gets 99% of its revenue from regulated assets, so cash flow tends to be predictable and reliable. This is an important consideration for TFSA investors who are seeking top dividend stocks to generate passive income.

Fortis grows through a combination of acquisitions and development projects. The company incorporated in 1987 with $390 million in assets, so the pace of growth has been impressive.

Fortis is currently working on a $20 billion capital program that will raise the rate base by roughly a third by 2026. The resulting increase in cash flow is expected to support average annual dividend increases of at least 6% through 2025. That's solid guidance in the current environment of high inflation and market instability.

Fortis raised the payout in each of the past 48 years. The current distribution provides a yield of 3.3%. That's lower than the yield investors can get from other stocks right now, but the dividend growth makes up for it, and Fortis tends to be a good defensive stock to ride out market pullbacks.

A $10,000 investment in Fortis stock 25 years ago would be worth about $195,000 today with the dividends reinvested.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) paid its first dividend in 1829, and investors have received a share of the profits every year since that time. The board raised the dividend by 25% for fiscal 2022 and another generous hike is likely on the way for 2023.

Bank of Montreal is using the large cash position it built up during the pandemic to make an acquisition in the United States. The US$16.3 billion purchase of Bank of the West will add more than 500 branches to Bank of Montreal's BMO Harris Bank operations and give the company a strong foothold in the California market.

Bank of Montreal has a balanced revenue stream coming from personal banking, commercial banking, capital markets, and wealth management operations primarily in Canada and the United States. The large American business gives TFSA investors good exposure to the U.S. banking sector through a quality Canadian bank.

The stock is down to $132 per share from the 2022 high above $154. Ongoing volatility should be expected, as the market tries to price risks associated with high inflation and aggressive central bank interest rate hikes.

A recession and a crash in the housing market would be bad for bank stocks. However, a soft landing for the economy and a jump in net interest margins could drive steady earnings growth for the banks.

At the current share price, investors can pick up a 4% yield and wait for ongoing distribution increases. All things considered, BMO stock looks undervalued today.

The bottom line on top stocks for a TFSA

Fortis and Bank of Montreal are top dividend stocks with great track records of distribution growth. If you have some cash to put to work in a TFSA focused on passive income and total returns, these stocks deserve to be on your radar.

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