2 Oversold Dividend Stocks to Buy for TFSA Passive Income

Description

The market pullback is giving retirees and other TFSA investors a chance to buy attractive dividend stocks at reasonable prices for portfolios focused on passive income.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) trades near $17.80 per share at the time of writing compared to more than $22 last summer. The company had a rough time in 2021 due to some operational challenges that reduced revenue for the year and led to expensive repairs.

Investors dumped the stock due to the issues, sending TransAlta Renewables shares as low as $16 at one point in early 2022. Bargain hunters moved in at that level, and the share price bounced back above $19 last month, but it has since dipped amid the broader slide in the equity markets.

TransAlta fixed the issue at is gas-fired power plant that had an unplanned outage last year. The company has also put the process in place to repair the foundations on 50 wind towers at Kent Hills sites in New Brunswick. That work is expected to require capital expenditures of about $120 million and is targeted for completion by the end of next year.

In the meantime, recently acquired assets and completed projects will help offset the revenue hit in 2022. In fact, TransAlta Renewables reported a 13% increase in adjusted EBITDA for the first quarter of this year. Free cash flow rose 9%.

Investors who buy the stock at the current price can pick up a solid 5.25% dividend yield and simply wait for the Kent Hills projects and other developments in the pipeline to boost revenue in the next few years.

CIBC

CIBC (TSX:CM)(NYSE:CM) trades for close to $137 per share at the time of writing compared to the

2022 high of $167.50. The steep pullback is due to a correction in the broader banking sector.

Investors are concerned that high inflation will remain in place longer than expected and force the Bank of Canada and the U.S. Federal Reserve to raise interest rates higher and faster than previously anticipated. Economists increasingly think avoiding a recession as a result is going to be difficult.

In addition, a steep rise in mortgage rates will cool off the hot Canadian housing market. In the event rates move too high and stay elevated for a few years, homeowners might be forced to sell if they can't cover the increase in payments when they go to renew their loans.

The canary in the housing coal mine could be investment properties. A recent study indicated that as much as 40% of the market in some provinces is owned by people with multiple properties. If prices start to slide and speculators panic, a wave of listings could hit the market and set off a domino effect.

That being said, CIBC and its peers have ample capital to ride out some tough times and the dividend looks very safe. CIBC raised the payout by 10% for fiscal 2022. The bank remains very profitable and at 9.5 times trailing 12-month earnings the stock appears cheap.

Investors who buy CIBC at the current share price can pick up a 4.7% dividend yield.

The bottom line on good dividend stocks to buy for passive income

TransAlta Renewables and CIBC look oversold right now and pay attractive dividends with above-average yields. If you have some cash to put to work in a portfolio focused on passive income, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:RNW (TransAlta Renewables)

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