Retirees: 2 Cheap TSX Dividend Stocks to Buy Now for Growing Passive Income

Description

The market correction hitting the **TSX Index** is finally giving retirees a chance to buy some top Canadian dividend stocks at undervalued prices to generate reliable and growing passive income inside a TFSA portfolio.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) trades for $127 per share at the time of writing compared to nearly $150 earlier this year. The stock now offers investors a solid 4% dividend yield with prospects for good distribution growth in the coming years.

Royal Bank increased the dividend by 11% in late 2021 and recently bumped it up by another 7% after reporting strong fiscal Q2 2022 results. The company made it through the pandemic in great shape and is using some of the excess cash it built to make strategic acquisitions. Royal Bank is buying a wealth management firm in the U.K. for $2.6 billion in a move that will provide a solid platform to expand the group's presence in that market.

Royal Bank has a great track record of providing investors with dividend growth and decent total returns. The stock appears undervalued right now at 11 times trailing 12-month earnings.

Investors are concerned that rising mortgage rates will create a crash in the Canadian housing market. This would be negative for Royal Bank and its peers, but things would have to get really bad before Royal Bank takes a meaningful hit. The likely outcome is a drop of 10-15% in house prices and a gradual increase in loan defaults.

At this point, the risks are likely already built into the share price.

BCE

BCE (TSX:BCE)(NYSE:BCE) has been a favourite among retirees for decades, and there is good reason for that trend to continue. The communications giant has a strong balance sheet, enjoys a wide competitive moat, has the power to raise prices, and generates solid free cash flow to cover the generous dividend.

BCE is running fibre optic lines to the premises of its customers and is also building out a 5G wireless network. These capital programs will enable customers to access the broadband they need for work and play while providing BCE with new revenue opportunities.

The bulk of BCE's revenue comes from essential services such as internet and wireless subscriptions, so the company has some built-in protection against an economic downturn. This doesn't mean BCE is recession-proof, as its media business can see a drop in advertising revenue when times get tough and new phone sales can slow down, as people decide to use older models for longer.

That being said, the stock looks cheap right now near $62.50 per share and provides investors with an attractive 5.9% dividend yield.

The board raised the dividend by at least 5% annually for the past 14 years, and investors should see the streak continue over the medium term. BCE expects free cash flow to grow by 2-10% in 2022.

The bottom line on top stocks for passive income

Royal Bank and BCE are leaders in their respective industries. The companies pay reliable and growing dividends and provide services that people and businesses need in all economic conditions. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

CATEGORY

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3. TSX:BCE (BCE Inc.)
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