TFSA Dividend Income: 2 TSX Stocks to Buy on the Pullback

Description

The market correction is driving down stocks to the point where TFSA investors focused on passive income can now buy top dividend stocks at undervalued prices.

CIBC

CIBC (TSX:CM)(NYSE:CM) currently trades for roughly nine times trailing 12-month earnings. This looks cheap, considering the bank recently said it expects adjusted earnings per share to grow by 7-10% over the medium term. That should support average annual dividend increase in the same range. Return on equity is expected to be 16%.

The positive outlook hasn't convinced investors who are concerned the economy is headed for a recession as the Bank of Canada and the U.S. Federal Reserve raise interest rates aggressively to try to tame high inflation.

In addition, CIBC has a large relative exposure to the Canadian residential housing market. In the event that rising mortgage rates cause house prices to plunge quickly and by more than the anticipated 10-15%, CIBC stock could come under added pressure, as investors worry about a potential surge in defaults.

At this point, market fear appears overdone, and investors have an opportunity to buy CIBC stock at a discount and pick up an attractive 5.25% dividend yield.

CIBC made acquisitions in the United States in recent years to diversify the revenue stream. This helps offset any segment-specific risks in the Canadian operations. The bank has a strong capital position with a CET1 ratio of 11.7%, so there is sufficient cash on the balance sheet to ride out some tough times.

Suncor

Suncor (TSX:SU)(NYSE:SU) recently gave back some of the 2022 gains, as investors booked profits on oil stocks and reacted to a pullback in the price of WTI oil from US$120 per barrel to the current price of US$107.

The dip should be a good opportunity for income investors to buy the Suncor stock. The shares trade for $44.50 at the time of writing compared to more than $53.50 earlier this month. The dividend yield is now 4.2%, and investors should see a generous payout increase announced for 2023, if not sooner. Suncor raised the dividend by 100% late last year and the board increased the distribution by another 12% when Suncor announced the Q1 2022 results.

Suncor is generating strong production profits at current oil prices and the rebound in fuel demand is driving a continued recovery in the refining and retail operations.

Suncor traded at $44 per share in early 2020 before the start of the pandemic. At that time, WTI oil was about US$60 per barrel. Now that the downstream businesses are performing well, the stock looks undervalued.

Oil producers in Canada are primarily focused on returning cash to investors in this environment and are only spending enough on capital investments to maintain output. OPEC and other global producers don't have spare capacity due to the lack of investment over the past two years. As a result, the global oil market will likely remain tight for some time, as demand grows and producers struggle to fill the gap.

The bottom line on cheap dividend stocks to buy now

CIBC and Suncor look undervalued today and pay attractive dividends that should continue to grow. 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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aswalker