# Tax-Free Passive Income: 2 Oversold TSX Dividend Stocks for TFSA Investors

### Description

The market pullback continues to provide TFSA investors with a chance to buy top TSX dividend stocks at undervalued prices for portfolios focused on passive income.



## Suncor

**Suncor** (TSX:SU)(NYSE:SU) trades near $45 per share at the time of writing compared to the recent high above $53. The stock is still up more than 35% this year, but the pullback offers an attractive entry point.

WTI oil trades for US$108 compared to the 2022 highs above US$120. Profit taking was expected after the big 2022 surge. Mounting recession fears also cooled off some enthusiasm in the energy sector. The overall outlook for the oil market, however, remains positive through the end of the year and into 2023.

Fuel demand continues to rebound around the world, as airlines return to the skies and commuters hit the highways. Refineries are already running near capacity to keep up with demand, and oil producers are either unable or unwilling to increase supply to offset gaps in the market.

The entire industry slashed exploration and development investments by hundreds of billions of dollars over the past two years. It will take time for new capital outlays to have an impact on supply. At the same time, many oil producers are happy to spend enough to simply maintain output at current levels and reap the big profits. Cash flow is being used to pay down debt and reward investors through share buyback and higher dividends.

Suncor raised the dividend by 100% late last year and gave investors another 12% increase when it reported the Q1 2022 results. The Q2 results are expected to be even better. Suncor's production, refining, and retail businesses are performing well and should continue to generate strong free cash flow over the medium term.

The stock looks undervalued today considering the fact that Suncor traded near this price before the pandemic when WTI oil was around US$60 per barrel. Investors can currently pick up a 4.2% yield and wait for the next dividend hike.

## Manulife Financial

**Manulife** (TSX:MFC)(NYSE:MFC) operates insurance, wealth management, and asset management assets primarily located in Canada, the United States, and Asia. The stock is down from $28 earlier this year to $22 and is now offering a 5.9% dividend yield.

Investors bailed out of financial stocks over the past few months amid rising recession fears. Soaring inflation is reducing the amount of extra cash people have to spend on discretionary purchases. Interest rate increases from the Bank of Canada and the U.S. Federal Reserve that are designed to bring inflation under control could drive economic activity down even more, as households take a second blow from rising debt costs.

An economic slowdown is likely, but the drop in Manulife's share price appears overdone. The company generated record profits in 2021. This year started off a bit weak due to the impacts of the Omicron surge, and Q2 will likely show a negative hit from plunging equity markets. However, the back half of 2022 should be better. Rising interest rates will boost returns on cash that Manulife needs to set aside to cover potential claims. Investors might not fully appreciate how beneficial this can be for the bottom line. In addition, Manulife doesn't have the same level of exposure to the housing market as the banks.



## The bottom line on top oversold stocks to buy for passive income

Suncor and Manulife pay attractive dividends that should continue to grow. The stocks look cheap right now and deserve to be on your radar for a TFSA focused on passive income.

**CATEGORY**

1. Dividend Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:MFC (Manulife Financial Corporation)
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