2 Top TSX Dividend Stocks to Buy Now for Reliable TFSA Passive Income

Description

The market correction is finally giving retirees and other TFSA investors a chance to buy top TSX dividend stocks at undervalued prices for portfolios focused on passive income.

Telus

Telus (TSX:T)(NYSE:TU) has a great track record of dividend growth that is expected to continue in the coming years, even if the economy goes through a recession. Management expects annual dividend growth to be 7-10% through 2025. Rising revenues, higher profits, and improved free cash flow should support the distribution increases.

Telus is nearing the end of its heavy capital outlays for the copper-to-fibre transition. This will enable the company to focus on expanding the 5G mobile network while stabilizing capital investments. The result is better broadband access for customers across multiple platforms and opportunities for Telus to migrate customers to higher rate plans and new services.

Telus typically raises the payout two times per year. At the time of writing, the distribution provides a yield of 4.7%. Telus stock trades for less than $29 right now compared to $34.50 in April. The pullback looks overdone and offers investors a chance to get a great yield at a cheap price.

CIBC

CIBC (TSX:CM)(NYSE:CM) trades near $63 per share at the time of writing compared to the 2022 high above $83. The steep drop is due to a broad pullback in bank stocks, as investors worry that a recession is on the way and will hit revenue and profits.

The Bank of Canada and the U.S. Federal Reserve are raising interest rates in an effort to tame inflation. The resulting jump in borrowing costs for businesses and households could drive down spending and investment that is already under pressure due to elevated prices.

Economists expect a recession to be mild and short, if it occurs. Jobs are still plentiful, and prices could come down quickly if the correction in the commodity markets picks up steam. CIBC and its peers could see revenue growth slow down in areas like the housing market, but the banks will also benefit from higher net interest margins as interest rates rise.

CIBC stock now offers a solid 5.3% dividend yield. The board raised the dividend by 10% late last year and increased it again when the bank announced the fiscal Q2 2022 results. This suggests management is comfortable with the outlook for revenue and profits over the next couple of years.

On the risk side, a meltdown in the Canadian housing market would likely hit CIBC harder than its peers due to the higher relative exposure the bank has to the housing sector. That being said, CIBC has a strong capital position and things would have to get really bad before the bank takes a material hit.

The bottom line on top stocks to buy for passive income

Telus and CIBC pay attractive dividends that should continue to grow in the coming years. The shares look undervalued right now and offer attractive yields. 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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2. Investing

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2. NYSE:TU (TELUS)
3. TSX:CM (Canadian Imperial Bank of Commerce)
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