TFSA Passive Income: 2 Top TSX Dividend Stocks for New Investors

Description

Retirees and other investors seeking passive income are using their TFSA to buy top TSX dividend stocks that now trade at undervalued prices. Here are two undervalued stocks to target.

BCE

BCE (TSX:BCE) (NYSE:BCE) operates wireless and wireline networks across Canada that provide clients with mobile, internet, security, and TV services. The company also has a media division that is home to a television network, specialty channels, radio stations, digital platforms, and part ownership in a handful of pro sports teams based in Toronto.

BCE is a good stock to own in the current environment of high inflation. The company has the power to raise rates on its services when costs increase. BCE is also an attractive holding as a defensive play during difficult economic times. Customers are unlikely to cut their internet and mobile subscriptions when cash flow gets tight. Households will even slash many other discretionary expenses before they give up their TV or streaming services.

BCE has raised its dividend at least 5% annually over the past 14 years. The company is making new investments in fibre optic lines that run right to the premises of customers. BCE is also expanding its 5G mobile network after spending $2 billion last year to purchase new 3500 MHz spectrum from the government. These initiatives are expensive but BCE has a market capitalization of nearly $58 billion, so it is large enough to be able to upgrade the networks while still giving investors decent dividends.

Free cash flow is expected to increase by 2-10% in 2022. Ongoing dividend growth should be in line with recent years. Network investments will open up opportunities for new revenue streams based on the expanded broadband available to customers.

BCE stock looks undervalued right now near $63 per share. The shares traded as high as $74 a few months ago. Investors who buy at the current price can pick up a 5.8% dividend yield.

CIBC

CIBC (TSX:CM) (NYSE:CM) is Canada's number five bank by market capitalization. The firm has a reputation for making big blunders and that is part of the reason the stock often trades at a discount to its peers. CIBC is also considered to be too reliant on the Canadian residential housing market for growth. Property prices have likely peaked in Canada and the volume of sales is expected to drop considerably over the next couple of years as rising mortgage rates keep new buyers out of the market while forcing highly leveraged speculators to unload their properties.

Although these factors can't be ignored, the market might be too negative on the stock.

The current executive team has done a good job of diversifying the revenue stream in recent years through a series of acquisitions south of the border. Despite the economic headwinds, CIBC told investors in June that it still expects to deliver annual revenue growth in the 7-10% range over the medium term.

CIBC stock trades for $63 at the time of writing compared to a 2022 high above $83. The shares look undervalued right now at less than nine times trailing 12-month earnings. Investors who buy CM stock at the current level can lock in a 5.25% dividend yield. CIBC raised the dividend by 10% late last year and increased it again when the company reported fiscal Q2 2022 results.

The bottom line on top TSX dividend stocks to buy now

BCE and CIBC pay great dividends with high yields and growing payouts. 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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