



## 1 Cheap TSX Dividend Stock to Buy for Passive Income and Total Returns

### Description

The [market correction](#) is providing TFSA and RRSP investors with a chance to buy top Canadian dividend stocks at [undervalued](#) prices. This is great investors seeking reliable passive income as well as those positioning a portfolio for strong total returns.

### TD Bank

TD ([TSX:TD](#))([NYSE:TD](#)) is Canada's second-largest bank with a current [market capitalization](#) of \$150 billion. The stock is down 25% from the 2022 high amid a major selloff in bank stocks that occurred in recent months.

### Risks

Investors are concerned that high inflation and rising interest rates will trigger a recession in 2023 or 2024. Consumers are already cutting back discretionary spending due to the surge in the cost of essential goods, including food and gasoline.

At the same time, sharp increases in interest rates from the Bank of Canada and the U.S. Federal Reserve threaten to drive up mortgage costs for property owners who need to renew their fixed-rate home loans or have variable-rate mortgages.

TD has a large Canadian residential mortgage portfolio. At the end of Q2 2022, the company reported \$239 billion in mortgages and \$108 billion of home equity lines of credit (HELOC) on the books. The HELOC total is worth watching, as these loans have variable rates. A significant drop in property prices triggered by panic selling could lead to a big hit for TD.

How things will pan out in the next 12-24 months is anyone's guess. For the moment, analysts and economists think a recession will be short and mild due to the strength in the jobs market. Houseprices are falling, but a total capitulation is unlikely. Canada has a supply shortage of homes and overall demand remains strong.

## Opportunity

TD remains a very profitable bank. The company earned \$7.55 billion in adjusted net income in the first half of fiscal 2022 compared to \$7.16 billion in the same period last year, so it is on track to beat the strong 2021 results.

TD finished Q2 2022 with a common equity tier-one (CET1) capital ratio of 14.7%. This is a measure of the bank's ability to ride out tough times and the capital position at TD is much higher than the 10.5% required by the government. In fact, TD is sitting on significant excess cash.

The strong capital position is one reason TD has decided to buy **First Horizon** for US\$13.4 billion. The addition of the U.S. bank will boost the size of TD's American operations by more than 400 branches and will make TD a top-six bank in the U.S. market.

This should help drive solid revenue growth in future years and further diversify the revenue stream.

## Dividends

TD raised the dividend by 13% late last year. Another generous payout increase is likely on the way for 2023.

Investors who buy the stock at the current price below \$82 per share can pick up a 4.4% dividend yield for passive income and simply wait for the stock to catch a new tailwind on the next rebound in the bank sector.

Loyal investors have done well with TD stock. A \$10,000 investment in the shares 25 years ago would be worth about \$170,000 today with the dividends reinvested.

## The bottom line on top TSX stocks for passive income and total returns

TD is just one example of a top TSX stock that is on sale right now for investors seeking passive income and total returns. It takes courage to buy when the market is down, but the long-term rewards can be significant.

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2. Investing

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