TFSA Passive Income: 2 Top TSX Dividend Stocks Trading at Undervalued Prices

Description

Retirees and other investors seeking reliable, tax-free, passive income now have a chance to buy top TSX dividend stocks at undervalued prices for a self-directed TFSA.

BCE

BCE (TSX:BCE)(NYSE:BCE) trades near $63.50 per share at the time of writing compared to a 2022 high around $64. The drop in the share price looks overdone, and new investors can now lock in a solid 5.8% dividend yield.

BCE is an attractive stock in the current era of high inflation. The company has the ability to raise prices for its services to offset increasing costs. In addition, BCE should be a good defensive pick for investors who are concerned the economy is headed for a recession. Households and businesses need to have mobile and internet services in all economic conditions. This means the core of BCE's revenue stream should hold up when times get tough.

BCE's media group took a hit during the pandemic but has bounced back, as advertisers are spending money again across the TV, radio, and digital platforms. An economic downturn could slow the recovery of the ad revenue, but BCE is unlikely to experience a repeat of the pandemic plunge.

On the mobile side, BCE should benefit from rising roaming fees in the second half of 2022, as businesspeople and vacationers increase trips out of the country. The market might not fully appreciate how big a boost the roaming fees can be for mobile revenue.

Management expects free cash flow to grow by 2-10% in 2022. The board raised the dividend by at least 5% annually over the past 14 years, and this streak should continue in 2023.

BCE reports Q2 2022 earnings on August 3. A strong showing could put a new tailwind behind the stock.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $76.50 per share at the time of writing compared to $95 earlier this year. Investors who buy the stock at the current level can pick up a 5.4% yield and simply wait for the bank stocks to rebound.

Bank of Nova Scotia remains very profitable, and that should remain the case, even if the economy goes through a recession. The bank generated $2.75 billion in fiscal Q2 2022 net income compared to $2.46 billion in the same period last year.

Rising interest rates will slow mortgage and loan growth, but higher rates also boost net interest margins, and this will help offset some of the negative impacts.

Economists are still putting the recession odds at about 50% and analysts expect a recession would be mild and short. This view makes sense given the ongoing strength in the jobs sector and the large savings pool that people and businesses built up over the past two years. Commodity prices are already falling, which should reduce inflation in the next few months, and the housing market downturn will have to get really bad before Bank of Nova Scotia takes a material hit.

The board raised the dividend by 11% late last year and bumped it up another 3% when Bank of Nova Scotia released the Q2 2022 results. Bank of Nova Scotia also increased the size of the share-buyback plan this year by 50% to 36 million shares. Share repurchases help remaining investors by raising earnings per share, which tends to support a higher stock price over time.

The bottom line on top stocks to buy for passive income

BCE and Bank of Nova Scotia offer high dividend yields and growing payouts. If you have some cash to put to work in a TFSA focused on passive income, these stocks appear cheap right now and deserve to be on your radar.

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