TFSA Investors: 2 Canadian Dividend Stocks to Buy for Tax-Free Passive Income

Description

The 2022 market correction is giving retirees and other Canadian dividend investors a chance to buy top TSX stocks at cheap prices for TFSA portfolios focused on generating reliable and growing passive income.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) paid its first dividend in 1829. Since then, investors have received a part of the payouts every year, and the dividend increases keep rolling in at a steady pace. In fact, Bank of Montreal raised the dividend by 25% late last year after the government lifted the pandemic ban on bank dividend hikes. Then Bank of Montreal raised the payout another 4.5%, when the company announced the fiscal second-quarter (Q2) 2022 results.

Bank of Montreal has built up significant excess cash over the past two years to cover a wave of potential loan losses that never materialized due to government aid for households and businesses. Along with the payout increases, Bank of Montreal is using the cash hoard to drive growth through a large acquisition. The company is buying **Bank of the West** for US$16.3 billion in a deal that will add more than 500 branches to BMO Harris Bank.

The stock looks undervalued at the current price near $128 per share. Bank of Montreal traded as high as $154 earlier this year. At the time of writing, investors can pick up a solid 4.3% dividend yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a leader in the North American energy infrastructure sector with oil pipelines, natural gas pipelines, natural gas distribution utilities, renewable energy, and oil export assets. Enbridge is also getting into the liquified natural gas (LNG) segment and exploring growth opportunities in hydrogen and carbon-capture hubs.

The company moves 30% of the oil produced in Canada and the United States and 20% of the natural gas used by American companies and households. Oil and natural gas markets have rebounded and demand growth is expected to continue at a steady pace with international buyers increasingly turning to North America for supplies. Enbridge bought an oil export terminal late last year and recently announced it is taking a 30% stake in a LNG development on the British Columbia coast.

The stock looks cheap at the current price near $55.50. Enbridge traded above $59 in early June. The share price dropped along with oil producers amid the pullback in the price of oil, but the commodity price has limited direct impact on Enbridge’s revenue stream. The company simply transports oil and gas and charges a fee for providing the service.

Investors can now pick up a 6.2% dividend yield and should see annual dividend growth of 3-5%. Enbridge has raised the dividend in each of the past 27 years. Management previously said distributable cash flow is expected to rise by 5-7% annually over the medium term, supported by a steady annual capital program of $5-6 billion.

Enbridge is also returning capital to shareholders through buybacks. The company is spending $1.5 billion under the current normal course issuer bid (NCIB) to repurchase stock.

The bottom line on top dividend stocks to buy for passive income

Bank of Montreal and Enbridge pay attractive dividends that should continue to grow for decades. If you have some cash to put to work in a TFSA focused on passive income, these stocks look cheap today and deserve to be on your radar.

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1. Dividend Stocks
2. Investing

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